

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1996

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 0-18605

MONTEREY HOMES CORPORATION
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization) 86-0611231 (IRS Employer Identification No.)

6613 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85250
(Address of principal executive offices) (Zip Code)

(602) 998-8700
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, \$.01 par value New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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]

At March 21, 1997, the aggregate market value of common stock held by non-affiliates of the Registrant was \$17,075,000.

The number of shares outstanding of the Registrant's common stock on March 21, 1997 was 4,580,611.

DOCUMENTS INCORPORATED BY REFERENCE

Portions from the Registrant's Proxy Statement relating to the 1997 Annual Meeting of Stockholders to be held on May 29, 1997 have been incorporated by reference into Part III, Items 10, 11, 12 and 13.

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PART I

Item 1. Business

Merger

On December 23, 1996, the stockholders of Homeplex Mortgage Investments Corporation, now known as Monterey Homes Corporation (the "Company"), approved the merger (the "Merger") of Monterey Homes Construction II, Inc., an Arizona corporation ("MHC II"), and Monterey Homes Arizona II, Inc., an Arizona corporation ("MHA II") (collectively, the "Monterey Entities" or "Monterey"), with and into the Company. MHC II and MHA II were privately owned homebuilders with operations in the Phoenix and Tucson, Arizona metropolitan areas. The Merger was effective on December 31, 1996, and was completed pursuant to the terms of an Agreement and Plan of Reorganization, dated September 13, 1996, by and among the Company, MHC II, MHA II and William W. Cleverly and Steven J. Hilton, the shareholders of MHC II and MHA II (the "Merger Agreement").

Upon consummation of the Merger, the Company's name was changed to Monterey Homes Corporation and the Company's New York Stock Exchange ticker symbol was changed to MTH. In addition, a one-for-three reverse stock split of the Company's issued and outstanding Common Stock, \$.01 par value per share, was effected. Except as otherwise indicated, the share information contained herein reflects the one-for-three reverse stock split.

Prior to the Merger, the Company had 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"). Accordingly, the Company generally was not subject to tax on its income to the extent that it distributed at least 95% of its taxable earnings to stockholders and maintained its qualification as a REIT. As part of the Merger, however, the Company discontinued its status as a REIT because it would no longer be able to meet certain tests with respect to the nature of its assets, share ownership and the amount of distributions, among other things, which are required to be met in order to qualify as a REIT. As a result, any future distributions to the Company's stockholders will not be deductible by the Company in computing its taxable income. In that regard, the Company's Board of Directors intends to retain earnings to finance the growth of the Company's business. The future payment of cash dividends, if any, will depend upon the financial condition, results of operations and capital requirements of the Company, as well as other factors deemed relevant by the Board.

Overview of Pre- and Post-Merger Business

Prior to the Merger, the Company was engaged in the business of making short-term and intermediate-term mortgage loans on improved and unimproved real property ("Real Estate Loans") and owned mortgage assets. In 1993, the Company decided to shift its focus to making Real Estate Loans from the ownership of mortgage assets consisting of mortgage instruments,

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including residential mortgage loans and mortgage certificates representing interest in pools of residential mortgage loans ("Mortgage Instruments") and mortgage interests, commonly known as residual interests, representing the right to receive the net cash flows on Mortgage Instruments ("Mortgage Interests"). 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, mortgage pass-through certificates, or other mortgage securities issued by various institutions.

The Company's business has changed substantially as a result of the Merger. The Company will no longer be engaged primarily in the business of making Real Estate Loans, but instead will be engaged primarily in the homebuilding business -- the business engaged in by Monterey. Accordingly, the

"Business" section of this Annual Report on Form 10-K will focus primarily on the operations of Monterey for the year ended December 31, 1996.

The Company is a Maryland corporation headquartered in Scottsdale, Arizona. The Company's principal executive offices are now located at 6613 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85250, and its telephone number is (602) 998-8700.

This Annual Report on Form 10-K contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "anticipate," and "project," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but not be limited to, projections of revenues, income or loss, home sales, housing permits, backlog, inventory, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation and plans relating to products or services of the Company, as well as assumptions relating to the foregoing. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Annual Report, including the Notes to the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences. Additional factors that could cause actual results to differ materially from those expressed in such forward-looking statements are set forth in "Business" and "Market for the Registrant's Common Stock and Related Stockholder Matters" in this Annual Report.

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Homebuilding Operations of Monterey

Monterey designs, builds, and sells single-family, move-up and semi-custom, luxury homes in the Phoenix and Tucson, Arizona metropolitan areas. Monterey achieved revenue growth from \$20.4 million in 1991 to \$86.8 million in 1996 and achieved pre-tax income of \$6 million in 1996. Monterey attributes this growth principally to the market knowledge and experience of its management team and strong economic conditions in the Phoenix metropolitan area. For the year ended December 31, 1996, Monterey closed 307 homes generating revenues of \$86.8 million and as of that date had a backlog of 120 homes under contract.

Industry

The homebuilding industry is highly competitive and extremely fragmented, and is greatly affected by a number of factors, on both a national and regional level. Among the most vital factors on a national level are interest rates and the influence of the Federal Reserve Board on interest rates. The homebuilding industry's sensitivity to interest rate fluctuations is two-pronged: an increase or decrease in interest rates affects (i) the homebuilding company directly in connection with its cost of borrowed funds for land and project development and working capital and (ii) home buyers' ability and desire to obtain long-term mortgages at rates favorable enough to service a long-term mortgage obligation. Monterey believes that the availability of less expensive mortgage financing vehicles such as variable rate mortgage loans have encouraged potential home buyers moving to high growth areas to be more willing to purchase a new home now and refinance at a later date.

Business Strategy

Monterey's business strategy is to provide its customers with quality move-up and semi-custom, luxury homes in prime locations while catering to customers' desires to customize Monterey's offered floor plans. Monterey seeks to distinguish itself from other production homebuilders by offering homes that it believes have distinctive designs and by offering custom home features at prices that offer a better value than generally available.

Monterey's business strategy focuses on the following elements:

Quality Product - Distinctive Design Features. Monterey seeks to maximize customer satisfaction by offering homes that are built with quality materials and craftsmanship, exhibit distinctive design and are situated in premium locations. Its competitive edge in the selling process focuses on the home's features, design and available custom options. Monterey believes that its homes generally offer higher quality and more distinguished designs within a defined price range or category than those built by its competitors.

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Service. Monterey attempts to involve the customer in every phase of the building process through a series of conferences with the sales staff, project managers and construction superintendents. This procedure is designed to

give the buyer the opportunity to add custom design features and monitor development of the home, creating a sense of participation in and control over the end product.

Product Breadth. Monterey has two major product lines: luxury and move-up. The luxury market segment is characterized by unique communities in which Monterey builds semi-custom homes. Monterey rarely duplicates its semi-custom floor plans from one community to another, providing customers within each specific community distinctive luxury homes. The move-up market segment is characterized by lower-priced production homes for which floor plans can be used from community to community. Monterey's expansion into the move-up buyer segment of the market reflects its desire to increase its share of the overall housing market in the Phoenix and Tucson metropolitan areas.

Target Market. Particularly in its luxury home operations, Monterey focuses on the affluent buyer, including professionals and those purchasing second homes and who may live in the Phoenix or Tucson metropolitan areas on a part-time basis. Because of its customer profile and the nature of the semi-custom, luxury segment of the market, Monterey believes that the demand for this product is less cyclical and less sensitive to the adverse effects of interest rate fluctuation than other segments of the homebuilding industry, and somewhat less affected by economic downturns. For the year ended December 31, 1996, approximately 45% and 55% of Monterey's revenues were derived from the sale of move-up and semi-custom, luxury homes, respectively. For the year ended December 31, 1995, approximately 32% and 68% of Monterey's revenues were derived from the sale of its move-up and semi-custom, luxury homes, respectively. For the year ended December 31, 1994, approximately 15% and 85% of Monterey's revenues were derived from the sale of move-up and semi-custom, luxury homes, respectively. Although semi-custom, luxury home sales as a percentage of the Company's total revenues have declined over the last three years due to a greater emphasis on increasing sales of move-up homes, the Company currently expects to continue to derive a significant portion of its revenues from sales of semi-custom, luxury homes.

Penetration of New Markets. Depending on existing market conditions, Monterey may explore expansion opportunities in other parts of the Western and Southwestern United States. Its strategy in this regard will be to expand first into similar market niches in areas where it perceives an ability to exploit a competitive advantage. The expansion may be effected through acquisitions of homebuilders operating in such geographic markets.

Conservative Land Acquisition Policy. Monterey has historically pursued, and will continue to pursue, a conservative land acquisition policy. It generally purchases land subject to complete entitlement, including zoning and utilities services, focusing on development sites which it expects will have less than a three-year inventory of lots. These strategies reduce the risks

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associated with investments in land. Moreover, it controls lots on a non-recourse, rolling option basis in those circumstances in which it is economically advantageous to do so. To date, Monterey has not speculated in raw land held for investment.

Markets and Products

Overview. Monterey's operations primarily serve Scottsdale, Northeast Phoenix and Fountain Hills, Arizona (the "Scottsdale Area") and, beginning in the first half of 1996, Tucson and Oro Valley, Arizona (the "Tucson Area"). Monterey believes that both of these areas represent attractive homebuilding markets with opportunity for long-term growth. Monterey also believes that its operations in Scottsdale are well established and that it has developed a reputation for building quality move-up and semi-custom, luxury homes with distinctive designs.

Monterey's semi-custom, luxury homes are single-story, two to five bedroom homes, ranging in base price from approximately \$244,900 to \$505,900. Basements are available on some plans. The homes vary in size from 2,540 square feet to 4,530 square feet and are constructed on lots ranging from 5,500 square feet to one acre.

Monterey also builds single-family, move-up homes on subdivided lots. These are one and two-story detached homes, with two to five bedrooms, ranging in base price from approximately \$169,900 to \$227,900. The homes range from 1,970 square feet to 3,050 square feet and are constructed on lots ranging from 6,500 square feet to 10,000 square feet.

The average sales price for all homes closed during 1996 and 1995 was \$282,800 and \$284,200, respectively. At December 31, 1995, Monterey had a total of 144 home purchase contracts in backlog totaling \$38 million, with an average sales price of \$263,100, while at December 31, 1996, Monterey had 120 home purchase contracts in backlog totaling \$43 million, with an average sales price of \$355,500.

Scottsdale, Arizona. For 1995 and prior years, Monterey derived its revenues from operations in the Scottsdale Area. Scottsdale is a relatively affluent city within the Phoenix metropolitan area. In addition, Scottsdale has

developed detailed master planning and zoning regulations and the Scottsdale Area has typically appealed to the type of higher-income buyer which Monterey generally targets.

From 1995 to 1996, permits issued for single-family residential units in the City of Scottsdale decreased 3% from 3,194 to 3,077. Permits issued in the Phoenix metropolitan area increased 8.6% from 24,697 to 26,811 for the same time period. Moreover, although single-family housing permits in the Phoenix metropolitan area were at record levels in 1996, real estate analysts are predicting that new home sales in the Phoenix metropolitan area will slow significantly in 1997 and 1998. Any such slowing in new home sales could have a material adverse affect on the Company's operating results.

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The following table presents information relating to the current communities in the Scottsdale Area served by the Company.

Estimated Average Sales Price(2)	Community	Number of Homes Sold as of December 31, 1996	Number of Homes Closed at December 31, 1996	Number of Homes in Backlog at December 31, 1996	Number of Homes Remaining at December 31, 1996(1)
<S>	<C>	<C>	<C>	<C>	<C>
Luxury:					
Canada Vistas \$294,400		41	25	17	8
Eagle Mountain \$432,900		29	7	1	6
Lincoln Place \$439,150		56	23	0	23
Portales \$357,900		72	67	63	4
Scottsdale Country Club \$379,900 (Estates)		23	21	17	4
Scottsdale Country Club \$307,600 (Fairway)		43	43	41	2
SunRidge Canyon \$297,100		88	24	8	16
Tierra Bella \$379,600		35	15	4	11
56th St. and Dynamite(3) --		143	0	0	0
Luxury Subtotal:		530	225	151	74
Move-up:					
Grayhawk \$205,500		147	54	43	11
Palos Verdes \$192,900		72	41	29	12
Move-up Subtotal:		219	95	72	23
Total Scottsdale Area:		749	320	223	97

</TABLE>

- (1) The "Number of Homes Remaining" is the number of homes that could be built on both the remaining lots available for sale and land to be developed into lots as estimated by Monterey.
- (2) "Estimated Average Sales Price" is the current average base sales price of homes offered for sale in each respective community.
- (3) Sales currently scheduled to open in the third quarter of 1997.
- (4) In February 1997, the Company entered into an agreement to purchase additional land adjacent to Gainey Ranch in the Scottsdale Area which the

Company intends to develop into a 176 lot community, with sales currently expected to open in the third quarter of 1997.

Tucson, Arizona. Monterey began offering homes for sale in the Tucson Area in April 1996. The Tucson Area also has experienced growth over the last five years. Annual building permits issued for single-family residential units in the Tucson Area increased moderately from 9

approximately 5,000 in 1995 to approximately 5,200 in 1996, a 4% increase. Real estate analysts are predicting that new home sales in the Tucson metropolitan area will remain relatively flat in 1997.

The following table presents information relating to the current communities in the Tucson Area served by the Company.

<TABLE>
<CAPTION>

Estimated Average Sales Price(2) Community Price(2)	Total Number of Home Sites	Number of Homes Sold as of December 31, 1996	Number of Homes Closed at December 31, 1996	Number of Homes in Backlog at December 31, 1996	Number of Homes Remaining at December 31, 1996(1)
<S> <C>	<C>	<C>	<C>	<C>	<C>
The Lakes at Castle Rock (The Estates) \$354,200	46	11	6	5	35
The Lakes at Castle Rock (The Park) \$290,700	66	12	8	4	54
The Lakes at Castle Rock (The Retreat) \$193,300	56	31	17	14	25
Rancho Vistoso(3) --	144 ---	0 --	0 --	0 ---	144 ---
Total Tucson	312 ===	54 ==	31 ==	23 ==	258 ===

Area:
</TABLE>

- (1) The "Number of Homes Remaining" is the number of homes that could be built on both the remaining lots available for sale and land to be developed into lots as estimated by Monterey.
- (2) "Estimated Average Sales Price" is the current average base sales price of homes offered for sale in each respective community.
- (3) Sales currently scheduled to open in the second quarter of 1997.

Land Acquisition and Development

Most of the land acquired by Monterey is purchased only after necessary entitlements have been obtained so that Monterey has certain rights to begin development or construction as market conditions dictate. The term "entitlements" refers to development agreements, tentative maps or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give the developer the right to obtain building permits upon compliance with conditions that are usually within the developer's control. Even after entitlements are obtained, Monterey is still required to obtain a variety of other governmental approvals and permits during the development process. The process of obtaining such governmental approvals and permits can substantially delay the development process. In certain situations in the future, Monterey may consider purchasing untitled property where it perceives an opportunity to build on such property in a manner consistent with its business strategy.

Monterey selects land for development based upon a variety of factors, including (i) internal and external demographic and marketing studies; (ii) suitability of the projects, which generally are developments with fewer than 150 lots; (iii) suitability for development within a one to three year time period from the beginning of the development process to the delivery of the last house; (iv) financial review as to the feasibility of the proposed project, including projected profit margins, return on capital employed and the capital payback period; (v) the ability to secure governmental approvals and entitlements; (vi) results of environmental and legal due diligence; (vii) proximity to local traffic corridors and amenities; and (viii) management's

judgment as to the real estate market, economic trends and experience in a particular market. Monterey may consider purchasing larger properties consisting of 200 to 500 lots or more if it deems the situation to have an attractive profit potential and acceptable risk limitation.

Due to the strong market in the Scottsdale Area, the availability of land in the Scottsdale Area has decreased and the cost of such land has increased. There can be no assurance that the Company will be able to continue to acquire land in the Scottsdale Area on terms that are favorable to the Company. The Company's inability to acquire land in the Scottsdale Area on favorable terms could have a material adverse effect on the Company's business and operating results.

Monterey effects its land acquisition through purchases and rolling option contracts. Purchases are financed through traditional bank financing or through working capital. To control its investment in land and land acquisition costs, Monterey often utilizes non-recourse, rolling option contracts. Under the terms of such rolling option contracts, Monterey generally pays a non-refundable deposit of approximately 10% of the total option price at the inception of the option and an additional non-refundable deposit each time it purchases lots in a particular subdivision in the form of lot purchase price premiums above the contractual lot purchase price for a certain number of the lots in the development. Under all of its option contracts, Monterey is required to purchase a certain number of lots on a monthly or quarterly basis. In this way, Monterey pays the non-refundable deposit over time as it purchases lots under its option. As a result, Monterey's risk is limited to having paid a higher price in the form of an additional deposit for the lots which it has purchased if it determines not to exercise its option to purchase the remaining lots subject to the option agreement. Monterey's failure to purchase the lots as required under such agreements would result only in Monterey having paid a lot premium in the form of an additional deposit for those lots purchased as of the date of the contract's termination. At December 31, 1996, Monterey was buying lots under five rolling option contracts totaling 336 lots. The option contracts have expiration dates ranging from June 30, 1997, to August 9, 1999.

Once the land is acquired, Monterey undertakes, where required, development activities, through contractual arrangements with subcontractors, that include site planning and engineering,

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as well as constructing road, sewer, water, utilities, drainage and recreational facilities, and other amenities.

Monterey builds homes in master planned communities with home sites that are along or close in proximity to a major amenity, such as a golf course. These master planned communities are designed and developed by major land developers who develop groups of lots commonly referred to as "super pads" which are sold to a single homebuilder. Monterey typically purchases super pads which contain between 60 and 100 fully entitled lots which are roughly graded and have all utilities and paving brought up to the boundaries of the super pad. Monterey completes the development of each super pad by finishing paving, final grading and installing all utilities.

Monterey also develops its own subdivisions by purchasing entitled property and commencing site planning and development activities. In such cases, its employees supervise the land development process.

Monterey has occasionally used partnerships or joint ventures to purchase and develop land where such arrangements were necessary to acquire the property or appeared to be otherwise economically advantageous to Monterey. Monterey may continue to consider such arrangements where management perceives an opportunity to acquire land upon favorable terms, minimize risk and exploit opportunities through seller financing.

Monterey strives to develop a design and marketing concept for each of its projects, which includes determination of size, style and price range of the homes, layout of streets, size and layout of individual lots, and overall community design. The product line offered in a particular project depends upon many factors, including the housing generally available in the area, the needs of a particular market and Monterey's cost of lots in the project. Monterey has utilized an extensive number of floor plans throughout the years, but has offered only about 30 plans in any one year.

At December 31, 1996, Monterey owned 214 finished lots and had no lots under development in the Scottsdale Area. Monterey also had under contract or subject to the satisfaction of purchase contingencies, 127 finished lots and 185 lots under development in the Scottsdale Area.

At December 31, 1996, Monterey owned 56 finished lots and 144 lots under development in the Tucson Area. At December 31, 1996, Monterey also had under contract or subject to the satisfaction of purchase contingencies, 81 finished lots in the Tucson Area.

The following table sets forth by project Monterey's land inventory as of December 31, 1996.

<TABLE>
<CAPTION>

Projects	Land Owned		Land Under Contract or Option		Total
	Finished Lots	Lots Under Development (estimate)	Finished Lots	Lots Under Development (estimate)	
Scottsdale Area:					
<S>	<C>	<C>	<C>	<C>	<C>
Canada Vistas	24	-	-	-	24
Eagle Mountain	7	-	21	-	28
Grayhawk	23	-	81	-	104
Lincoln Place	56	-	-	-	56
Palos Verdes	43	-	-	-	43
Portales	9	-	-	-	9
Scottsdale Country Club (Estates)	6	-	-	-	6
Scottsdale Country Club (Fairway)	2	-	-	-	2
SunRidge Canyon	13	-	25	42	80
Tierra Bella	31	-	-	-	31
56th Street and Dynamite(1)	0	-	0	143	143
Total Scottsdale Area:	214	0	127	185	526
Tucson Area:					
The Lakes at Castle Rock (The Estates)	40	-	-	-	40
The Lakes at Castle Rock (The Park)	4	-	54	-	58
The Lakes at Castle Rock (The Retreat)	12	-	27	-	39
Rancho Vistoso	-	144	-	-	144
Total Tucson Area:	56	144	81	0	281
Total:	270	144	208	185	807

</TABLE>

(1) Escrow is scheduled to close in May 1997, and sales currently are expected to open in the third quarter of 1997.

In February 1997, the Company entered into an agreement to purchase additional land adjacent to Gainey Ranch in the Scottsdale Area which the Company intends to develop into a 176 lot community, with sales currently expected to open in the third quarter of 1997.

At December 31, 1996, and excluding the 56th Street and Dynamite Project which is not yet available for sale, the Company's land inventory was lower than it has been historically. Although the Company is actively attempting to increase its land inventory, there can be no

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assurance that the Company will be able to do so on terms that are favorable to the Company, especially in light of the decreased availability and increased cost of land in the Scottsdale Area. To the extent it is not offset by additional purchases of land, the low level of land inventory could have a material adverse effect on the Company's operating results in 1997 and, potentially, 1998.

Construction

Monterey acts as the general contractor for the construction of its projects. Subcontractors typically are retained on a subdivision-by-subdivision basis to complete construction at a fixed price. Agreements with subcontractors and materials suppliers are generally entered into after competitive bidding on an individual basis. Monterey obtains information from prospective subcontractors and suppliers with respect to their financial condition and ability to perform their agreements prior to commencement of the formal bidding process. From time to time, Monterey enters into longer term contracts with subcontractors and suppliers if management believes that more favorable terms can be secured.

Contracts are awarded to subcontractors who are supervised by Monterey's project managers and field superintendents. Such project managers and field superintendents coordinate the activities of subcontractors and suppliers, subject their work to quality and cost controls and assure compliance with zoning and building codes.

Monterey specifies that quality, durable materials be used in constructing its homes. Monterey does not maintain significant inventory of

construction materials. When possible, Monterey negotiates price and volume discounts with manufacturers and suppliers on behalf of subcontractors to take advantage of its volume of production. Generally, access to Monterey's principal subcontracting trades, materials and supplies continue to be readily available in each of its markets; however, prices for these goods and services may fluctuate due to various factors, including supply and demand shortages which may be beyond the control of Monterey or its vendors. Monterey believes that its relations with its suppliers and subcontractors are good.

Monterey generally clusters the homes sold within a project, which management believes creates efficiencies in land development and construction and improves customer satisfaction by reducing the number of vacant lots surrounding a completed home. Typically, the construction of a home by Monterey is completed within four to eight months from commencement of construction, although construction schedules may vary depending on the availability of labor, materials and supplies, product type and location. Monterey strives to design homes which promote efficient use of space and materials, and to minimize construction costs and time.

Monterey generally provides a one-year limited warranty on workmanship and building materials with each of its homes. Monterey's subcontractors generally provide an indemnity and a certificate of insurance prior to receiving payments for their work and, therefore, claims relating to workmanship and materials are usually the primary responsibility of Monterey's subcontractors.

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Historically, Monterey has not incurred any material costs relating to any warranty claims or defects in construction.

Marketing and Sales

Monterey believes that it has an established reputation for developing high quality homes, which helps generate interest in each new project. In addition, Monterey makes extensive use of advertising and other promotional activities, including magazine and newspaper advertisements, brochures, direct mail and the placement of strategically located sign boards in the immediate areas of its developments.

Monterey believes that the effective use of model homes plays an integral part in demonstrating the competitive advantages of its home designs and features to prospective home buyers. Monterey generally employs or contracts with interior designers who are responsible for creating an attractive model home for each product line within a project which is designed to appeal to the preferences of potential home buyers. Monterey generally builds between two and four model homes for each active community depending upon the number of homes to be built within each community and the product to be offered. At December 31, 1996, Monterey owned five model homes in the Scottsdale Area, with no model units under construction. There were no model homes under construction nor any owned in the Tucson Area at December 31, 1996. Monterey attempts, to the extent possible, to sell its model homes and to lease them back from purchasers who own the models for investment purposes or who do not intend to live in the home immediately, either because they are moving from out of state or for other reasons. At December 31, 1996, Monterey had sold and was leasing back 25 model homes at a total monthly lease amount of \$68,067.

Monterey tailors its product offerings, including size, style, amenities and price, to attract higher income home buyers. Monterey offers a broad array of options and distinctive designs and provides a home buyer with the option of customizing many features of their new home.

Most of Monterey's homes are sold by full-time, commissioned sales employees who typically work from the sales office located in the model homes for each project. Monterey's goal is to ensure that its sales force has extensive knowledge of Monterey's operating policies and housing products. To achieve this goal, all sales personnel are trained and attend periodic meetings to be updated on sales techniques, competitive products in the area, the availability of financing, construction schedules, marketing and advertising plans, and the available product lines, pricing, options and warranties offered by Monterey. Monterey also requires its sales personnel to be licensed real estate agents where required by law. Further, Monterey utilizes independent brokers to sell its homes and generally pays approximately a 3% sales commission on the base price of the home.

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From time to time, Monterey offers various sales incentives, such as landscaping and certain interior home improvements, in order to attract buyers. The use and type of incentives depends largely on prevailing economic conditions and competitive market conditions.

Backlog

Although Monterey generally constructs one or two homes per project in advance of obtaining a sales contract, Monterey's homes are generally offered for sale in advance of their construction. The vast majority of the homes sold but not closed in fiscal year 1996 were sold pursuant to standard sales contracts entered into prior to commencement of construction. Such sales contracts are usually subject to certain contingencies such as the buyer's

ability to qualify for financing. Homes covered by such sales contracts but not yet closed are considered as "backlog." For a detailed itemization of Monterey's backlog at December 31, 1996, see "Business--Homebuilding Operations of Monterey - - Markets and Products." Monterey does not recognize revenue on homes covered by such contracts until the sales are closed and the risk of ownership has been legally transferred to the buyer.

The Company's backlog in number of units decreased to 120 at December 31, 1996 from 144 at December 31, 1995. The dollar value of such backlog, however, increased to \$42,661,000 at December 31, 1996 from \$37,891,000 at December 31, 1995. The decrease in the number of units in backlog at December 31, 1996, due to strong fourth quarter 1996 deliveries may result in lower closings in the first quarter of 1997, which will have an adverse effect on the Company's operating results in that quarter.

Customer Financing

With respect to those purchasers requiring financing, Monterey seeks to assist home buyers in obtaining such financing from unaffiliated mortgage lenders offering qualified buyers a variety of financing options. Monterey may pay a portion of the closing costs and discount mortgage points to assist home buyers with financing. Since many home buyers utilize long-term mortgage financing to purchase a home, adverse economic conditions, increases in unemployment and high mortgage interest rates may deter and/or reduce the number of potential home buyers.

Customer Relations and Quality Control

Management believes that strong customer relations and an adherence to stringent quality control standards are fundamental to Monterey's continued success. Monterey believes that its commitment to customer relations and quality control have significantly contributed to its reputation as a high quality builder.

Generally, for each development, representatives of Monterey, who may be a project manager or project superintendent, and a customer relations representative, oversee compliance with Monterey's quality control standards. These representatives allocate responsibility for (i)

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overseeing home construction; (ii) overseeing performance by subcontractors and suppliers; (iii) reviewing the progress of each home and conducting formal inspections as specific stages of construction are completed; and (iv) regularly updating each buyer on the progress of his or her home.

Monterey strives to inform and involve the customer in all phases of the building process in most of its communities. Monterey usually holds a pre-construction conference with the customer, sales person and construction superintendent to review the house plans and design features selected by the customer. A second conference is held at the completion of the framing of the house to review the progress and answer any questions the customer may have. Upon completion of the house, a new home orientation manager meets with the customer for a new home orientation.

Competition and Market Factors

The development and sale of residential property is a highly competitive and fragmented industry. Monterey competes for residential sales with national, regional and local developers and homebuilders, resales of existing homes, and, to a lesser extent, condominiums and available rental housing. Some of the homebuilders with whom Monterey competes have significantly greater financial resources and/or lower costs than Monterey. Competition among both small and large residential homebuilders are based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. Monterey believes that it compares favorably to other homebuilders in the markets in which it operates due primarily to (i) its experience within its specific geographic markets which allows it to develop and offer new products to potential home buyers which reflect, and adapt to, changing market conditions; (ii) its ability, from a capital and resource perspective, to respond to market conditions and to exploit opportunities to acquire land upon favorable terms; and (iii) its reputation for outstanding service and quality products.

The homebuilding industry is cyclical and affected by consumer confidence levels, prevailing economic conditions in general, and by job availability and interest rate levels in particular. A variety of other factors affect the homebuilding industry and demand for new homes, including changes in costs associated with home ownership such as increases in property taxes and energy costs, changes in consumer preferences, demographic trends, the availability of and changes in mortgage financing programs and the availability and cost of land and building materials. Real estate analysts are predicting that new home sales in the Phoenix metropolitan area may slow significantly in 1997 and 1998 and that sales in the Tucson metropolitan area will remain relatively flat in 1997. Such a slowing in new home sales would increase competition among homebuilders in these areas. There can be no assurance that the Company will be able to compete successfully against other homebuilders in the Phoenix and Tucson metropolitan areas in a more competitive business environment that would result

from such a slowing in new home sales or that such increased competition will not have a material adverse affect on the Company's business and operating results.

Government Regulation and Environmental Matters

Most of Monterey's land is purchased with entitlements, providing for zoning and utility service to project sites and giving it the right to obtain building permits and begin construction almost immediately upon compliance with specified conditions, which generally are within Monterey's control. The length of time necessary to obtain such permits and approvals affects the carrying costs of unimproved property acquired for the purpose of development and construction. In addition, the continued effectiveness of permits already granted is subject to factors such as changes in policies, rules and regulations, and their interpretation and application. To date, the government approval processes discussed above have not had a material adverse effect on the development activities of Monterey. There can be no assurance, however, that these and other restrictions will not adversely affect Monterey in the future.

Because most of Monterey's land is entitled, construction moratoriums generally would only adversely affect Monterey if they arose from health, safety and welfare issues, such as insufficient water or sewage facilities. Local and state governments also have broad discretion regarding the imposition of development fees for projects in their jurisdiction. These fees are normally established when Monterey receives recorded final maps and building permits. However, as Monterey expands it may also become increasingly subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums, "slow-growth" initiatives or building permit allocation ordinances which could be implemented in the future in the states and markets in which Monterey may then operate.

Monterey is also subject to a variety of local, state, and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. In the principal market of Scottsdale, Monterey is subject to several environmentally sensitive land ordinances which mandate open space areas with public easements in housing developments. Monterey must also comply with flood plain concerns in certain desert wash areas, native plant regulations and view restrictions. These and similar laws may result in delays, cause Monterey to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas. To date, however, compliance with such ordinances has not materially affected Monterey's operations. No assurance can be given that such a material adverse effect will not occur in the future.

Bonds and Other Obligations

Monterey generally is not required, in connection with the development of its projects, to obtain letters of credit and performance, maintenance and other bonds in support of its related obligations with respect to such development. Such bonds are usually provided by subcontractors.

Employees and Subcontractors

At December 31, 1996, Monterey had 92 employees, of which 11 were in management and administration, 25 in sales and marketing, and 56 in construction operations. The employees are not unionized, and Monterey believes that its relations with its employees are good. Monterey acts solely as a general contractor and all of its construction operations are conducted through project managers and field superintendents who manage third party subcontractors. Monterey utilizes independent contractors for construction, architectural and advertising services.

Real Estate Loan Business Prior to Merger

Prior to the Merger, the Company made or acquired 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.

In the latter half of 1995, in anticipation of a potential acquisition transaction, the Company slowed its origination of Real Estate Loans. The following table sets forth information relating to the Company's only outstanding Real Estate Loan at December 31, 1996.

<TABLE>
<CAPTION>

Description	Interest Rate	Payment Terms	Amount Outstanding
First Deed of Trust on 41 acres of land in Gilbert, Arizona, face value of \$2,800,000.	16%	Interest only monthly, principal due October 18, 1997.	\$1,696,000

</TABLE>

The above loan was current at December 31, 1996. The Company does not intend to make any additional Real Estate Loans in the future.

Mortgage Assets Acquired Prior to Merger

Prior to the Merger, the Company acquired a number of 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

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bonds ("CMOs"), mortgage pass-through certificates ("MPCs") 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 trusts in which the Company has a beneficial interest to the extent of distributions to the Company as the owner of such beneficial interest.

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-collateralization 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 payments. Certain Classes of the Mortgage Securities will be subject to redemption at the option of the Issuer of such series 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.

As of December 31, 1996, the Company owned mortgage interests with respect to eight separate series of Mortgage Securities with a net amortized cost balance of approximately \$3,909,000. This cost represents 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.

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As a result of the Merger and the termination of the Company's REIT status, the Company does not intend to acquire any additional mortgage assets. The Company may elect in the future to (i) hold the mortgage assets to maturity, (ii) redeem the mortgage assets on or after the allowable redemption dates specified in the controlling agreement or (iii) sell the mortgage assets. The impact of each of the foregoing actions on the Company's operating results is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results and Financial Condition of the Company -- Mortgage Asset Considerations."

Item 2. Properties

The Company leases approximately 11,000 square feet of office space for its corporate headquarters from a limited liability company ("LLC") owned by

Messrs. Cleverly and Hilton in an approximately 14,000 square foot office building in Scottsdale, Arizona. Monterey leases the space on a five-year lease (ending September 1, 1999), net of taxes, insurance and utilities, at an annual rate which management believes is competitive with lease rates for comparable space in the Scottsdale area. Rents paid to the LLC totaled \$173,160 and \$164,394 during fiscal years 1996 and 1995, respectively. The Company has an option to expand its space in the building and to renew the lease for additional terms at rates which are competitive with those in the market at such time. Management believes that the terms of the lease are no less favorable than those which it could obtain in an arm's length negotiated transaction. The Company leases approximately 1,500 square feet of office space in Tucson, Arizona. The lease term is for 37 months commencing on October 1, 1995 at an initial annual rent of \$13.74 per square foot, increasing during the term of the lease to an ending rate of \$15.74 per square foot.

The Company also leases, on a triple net basis, 25 model homes. Such leases are for terms ranging from 2 months to 27 months, with renewal options ranging from 30 days to over 1 year, on a month-to-month basis. The lease rates are typically equal to 7% to 12% of the sales price of the homes per annum.

Item 3. Legal Proceedings

The Company is involved in various routine legal proceedings incidental to its business. Management believes that none of these legal proceedings, certain of which are covered by insurance, will have a material adverse impact on the financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

The 1996 Annual Meeting of the Company's stockholders was held on December 23, 1996. The proposals voted upon at the meeting and the votes cast for such proposals are set forth below. The share numbers in this Item 4 have not been adjusted for the one-for-three reverse stock split effectuated upon consummation of the Merger.

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(1) To approve the merger of the Monterey Entities with and into the Company and to approve the transactions related to the Merger; including the issuance of up to 4.7 million shares of Common Stock, \$.01 par value per share, to William W. Cleverly and Steven J. Hilton, the two stockholders of the Monterey Entities (collectively, the "Monterey Stockholders").

5,535,660 votes were cast in favor of the Merger and related transactions, while 1,792,909 were cast against the merger and related transactions. There were 132,830 abstentions and no broker non-votes.

(2) To approve an amendment to the Company's Articles of Incorporation to, among other things, (a) change the Company's name to "Monterey Homes Corporation," (b) reclassify and change each share of Common Stock issued and outstanding into one-third of a share of Common Stock, (c) amend and make more strict the restrictions on the transfer of Common Stock to preserve the Company's net operating loss carry forward and (d) provide for a classified Board of Directors, with one class being elected for a two-year term (the "Class I Directors"), and the other class of directors (the "Class II Directors") being elected for a one-year term (the "Charter Amendment").

5,206,434 votes were cast in favor of the Charter Amendment to the Articles of Incorporation while 2,118,685 votes were cast against the Charter Amendment. There were 136,280 abstentions and no broker non-votes.

(3) To elect (a) a five-member classified Board of Directors consisting of an existing director of Homeplex Alan D. Hamberlin, and William W. Cleverly, Steven J. Hilton, Robert G. Sarver and C. Timothy White (collectively, the "Post-Merger Directors") to hold office upon the effectiveness of the Merger to the next annual meeting and until their successors are elected, and (b) a five-member non-classified Board of Directors (the "Pre-Merger Directors") to hold office until the Merger is consummated or if for any reason the Merger is not consummated, to the next annual meeting and until their successors are elected. The results of the vote for and withheld from each of the Post-Merger Directors and Pre-Merger Directors were as follows:

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POST MERGER DIRECTORS - - - - -	FOR ---	WITHHELD -----
William W. Cleverly	5,643,428	1,817,971
Steven J. Hilton	5,640,903	1,820,496
Alan D. Hamberlin	5,634,453	1,826,946
Robert G. Sarver	5,651,178	1,810,221
C. Timothy White	5,650,653	1,810,746
PRE MERGER DIRECTORS - - - - -		
Alan D. Hamberlin	5,641,578	1,819,821
Jay R. Hoffman	5,651,978	1,809,421
Larry E. Cox	5,648,178	1,813,221

Mark A. McKinley	5,648,278	1,813,121
Gregory K. Norris	5,652,978	1,808,421

(4) To approve the issuance of stock options covering 750,000 shares of Homeplex Common Stock to Alan D. Hamberlin, a director and the Chief Executive Officer of Homeplex, pursuant to an existing employment agreement and related stock option agreement between Homeplex and Alan D. Hamberlin (the "Hamberlin Stock Options").

4,424,566 votes were cast in favor of the Hamberlin Stock Options and 2,727,839 against. There were 273,679 abstentions and 35,315 broker non-votes.

(5) To approve amendments to Homeplex's existing stock option plan and related stock option agreements between Homeplex and certain senior executive officers and directors of Homeplex to extend the exercise period after an optionee ceases to be a director or employee of Homeplex from three months to two years after cessation of employment or service as a director (the "Stock Option Extension").

4,432,815 votes were cast in favor of the Stock Option Extension and 2,705,494 against. There were 285,709 abstentions and 37,381 broker non-votes.

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PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

General

The Company's Common Stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "MTH." The following table sets forth the high and low closing sales prices, adjusted for stock splits, of the Common Stock, as reported by the NYSE, for the periods indicated below.

	High	Low
1996	----	---
First Quarter	6	4 1/8
Second Quarter	8 5/8	4 7/8
Third Quarter	8 1/4	6
Fourth Quarter	7 7/8	6 3/4
1995		
First Quarter	5 1/4	3
Second Quarter	6 3/8	3 3/4
Third Quarter	6 3/8	4 1/2
Fourth Quarter	5 5/8	4 1/8

On March 20, 1997, the closing sales price of the Company's Common Stock as reported by the NYSE was \$5 7/8 per share. At that date, the number of stockholder accounts of record of the Company's Common Stock was 544. The Company believes that there are approximately 5,000 beneficial owners of Common Stock.

Cash dividends per share paid by the Company were \$.06 in 1996, \$.09 in 1995, \$.06 in 1994, \$.09 in 1993 and \$1.20 in 1992, representing distributions of taxable income arising out of the Company's status as a REIT. The foregoing amounts reflect the one-for-three reverse stock split which occurred on December 31, 1996. The Company's loan and debt agreements contain certain covenants that restrict the payment of dividends if the financial condition, results of operation and capital requirements of the Company fail to meet certain specified levels. In addition, the Company's Board of Directors has indicated that the Company will not pay any permitted cash dividends for the foreseeable future. Instead, the Company's Board intends to retain earnings to finance the growth of the Company's business. The future payment of cash dividends, if any, will depend upon the financial condition, results of operations and capital requirements of the Company, as well as other factors deemed relevant by the Board.

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Factors That May Affect Future Stock Performance

The performance of the Company's Common Stock is dependent upon several factors, including those set forth below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Results and Financial Condition."

Restrictions or Transfer; Influence by Principal Stockholders. In order to preserve certain net operating loss carryforwards, the Company's charter precludes (i) any person from transferring such shares if the effect thereof would be to make any person or group an owner of 4.9% or more of the outstanding shares of Common Stock, or (ii) an increase in the ownership position of any person or group that already owns 4.9% or more of such outstanding shares. As a

result of the foregoing factors, Messrs. Cleverly and Hilton should have working control of the Company for the foreseeable future. One or more of the foregoing factors could delay or prevent a future change of control of the Company, which could depress the price of the Common Stock.

Possible Volatility of Stock Price. The market price of the Company's Common Stock could be subject to significant fluctuations in response to certain factors, such as, among others, variations in anticipated or actual results of operations of the Company or other companies in the homebuilding industry, changes in conditions affecting the economy generally, analysts' reports or general trends in the industry, as well as other factors unrelated to the Company's operating results.

Item 6. Selected Financial and Operating Data

The following table sets forth selected historical consolidated financial data of the Company for each of the years in the five-year period ended December 31, 1996. The selected annual historical consolidated financial data for 1996 are derived from the Company's Consolidated Financial Statements audited by KPMG Peat Marwick LLP, independent auditors. The selected annual historical consolidated financial data for 1995, 1994, 1993 and 1992 are derived from the Company's Consolidated Financial Statements audited by Ernst & Young LLP, independent auditors. For additional information, see the Consolidated Financial Statements of the Company included elsewhere in this Annual Report. The following table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations." Due to the Merger, the historical results are not indicative of future results. Pro forma financial information reflecting the Merger is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Pro-Forma Results of Operations."

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Historical Consolidated Financial Data
(Dollars in Thousands, Except Per Share Data)

<TABLE>
<CAPTION>

	Years Ended December 31,			
	1996	1995	1994	1993
1992				
<S>	<C>	<C>	<C>	<C>
<C>				
Income Statement Data:				
Income (loss) from mortgage assets..... (14,068)	\$2,244	\$ 3,564	\$ (1,203)	\$ (21,814)
Interest expense..... 2,750	238	868	1,383	2,274
General, administrative and other expense..... 2,315	1,710	1,599	1,938	1,822
Income (loss) before effect of accounting change and extraordinary loss..... (19,133)	296	1,097	(4,524)	(25,910)
Cumulative effect of accounting change(1)..... --	--	--	--	(6,078)
Extraordinary loss(2)..... --	(149)	--	--	--
Net income (loss)..... (19,133)	\$ 147	\$ 1,097	\$ (4,524)	\$ (31,988)
Income (loss) per share before effect of accounting change/extraordinary loss..... (5.79)	\$.09	\$.34	\$ (1.40)	\$ (7.98)
Cumulative effect of accounting change per share... --	--	--	--	(1.89)
Extraordinary loss per share..... --	(.05)	--	--	-
Net income (loss) per share..... (5.79)	\$.04	\$.34	\$ (1.40)	\$ (9.87)
Cash dividends per share(3)..... 1.20	\$.06	\$.09	\$.06	\$.09

At December 31,

	1996(4)	1995	1994	1993
Balance Sheet Data:				
Real estate loans.....	\$1,696	\$ 4,048	\$ 9,260	\$ 320
0				
Residual interests.....	3,909	5,457	7,654	17,735
66,768				
Total Assets.....	72,821	27,816	31,150	43,882
87,063				
Notes Payable.....	30,542	7,819	11,783	19,926
31,000				
Total liabilities.....	45,876	9,368	13,508	21,505
32,357				
Stockholders' equity.....	26,945	18,448	17,642	22,377
54,706				

- (1) Reflects the cumulative effect of adoption of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."
- (2) Reflects extraordinary loss from early extinguishment of long-term debt.
- (3) For any taxable year in which the Company qualified and elected to be treated as a REIT under the Code, the Company was not subject to federal income tax on that portion of its taxable income that was distributed to stockholders in or with respect to that year. Regardless of such distributions, however, the Company may be subject to tax on certain types of income. Due to the Merger, the Company did not qualify as a REIT in 1996.
- (4) Reflects the Merger consummated on December 31, 1996.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

As a result of the Merger, the primary business of the Company has changed from the making of real estate loans to homebuilding. Accordingly, this Annual Report on Form 10-K includes discussion and analysis of the financial condition and results of operation for the Company, as well as a discussion and analysis of the pro forma results of operations of the Company reflecting the Merger as though the Merger was consummated on January 1, 1995.

Historical Results of Operations

Year Ended December 31, 1996 Compared to 1995

The Company had net income of \$147,000 or \$.04 per share in 1996 compared to income of \$1,097,000 or \$.34 per share in 1995. Results for the year ended December 31, 1996 include an extraordinary loss from the early extinguishment of debt of \$148,000 or \$.05 per share.

The Company's income from Mortgage Assets was \$2,244,000 in 1996 compared to income of \$3,565,000 in 1995. Interest income on real estate loans decreased from \$1,618,000 in 1995 to \$571,000 in 1996 due to the reduction of the Company's real estate lending program.

The Company's interest expense declined from \$868,000 in 1995 to \$238,000 in 1996 due to a reduction of the average aggregate long-term debt.

Year Ended December 31, 1995 Compared to 1994

The Company had net income of \$1,097,000 or \$.34 per share in 1995 compared to a net loss of \$4,523,000 or \$1.40 per share in 1994.

The Company's income from Mortgage Assets was \$3,565,000 in 1995 compared to a loss of \$1,202,000 in 1994. The 1994 loss included a net charge of \$3,343,000 to write down the Company's investments in several of its residual interests.

Interest income on real estate loans increased from \$1,112,000 in 1994 to \$1,618,000 in 1995 due to the expansion of the Company's real estate lending program.

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.

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Liquidity, capital resources and commitments should be viewed for the combined Company in light of the Merger. As a result, the following discusses the liquidity, capital resources and commitments of the combined Company as a result of the Merger.

The Company uses a combination of existing cash, unused borrowing capacity, internally generated funds and customer deposits to meet its working capital requirements. At December 31, 1996, the Company had \$20.0 million in short-term, secured, revolving construction loan agreements of which approximately \$7.3 million was outstanding. The Company also had outstanding approximately \$9.6 million at December 31, 1996 of secured construction loan agreements.

The Indenture relating to the Company's 13% Senior Subordinated Notes and the Company's various loan agreements contain restrictions which could, depending on the circumstances, affect the Company's ability to obtain additional financing in the future. If the Company at any time is not successful in obtaining sufficient capital to fund its then-planned development and expansion costs, some or all of its projects may be significantly delayed or abandoned. Any such delay or abandonment could result in cost increases or the loss of revenues and could have a material adverse effect on the Company's results of operation and ability to repay its indebtedness.

The cash flow for each of the Company's communities can differ substantially from reported earnings, depending on the status of the development cycle. The early stages of development or expansion require significant cash outlays for, among other things, land acquisition, obtaining plat and other approvals, construction of amenities which may include community tennis courts, swimming pools and ramadas, model homes, roads, certain utilities and general landscaping. Since these costs are capitalized, this can result in income reported for financial statement purposes during those early stages significantly exceeding cash flow. After the early stages of development and expansion when these expenditures are made, cash flow can significantly exceed income reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs.

At December 31, 1996, the Company had a net operating loss carryforward, for income tax purposes, of approximately \$53,000,000. This tax loss may be carried forward, with certain restrictions, for up to 13 years to offset future taxable income, if any.

Impact of Inflation

Periods of high inflation can have a negative impact on the operations of the Company. Real estate and residential housing demand are affected by inflation, which can cause increases

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in interest rates, the price of land, raw materials and subcontracted labor. An increase in interest rates corresponds with higher construction and financing costs, which can result in lower gross margins or in losses. High mortgage interest rates may also make it more difficult for the Company's potential customers to finance the purchase of a new home or to sell an existing home. Unless costs are recovered through greater sales prices, gross margins will decrease and losses may be incurred. A prospective buyer's ability to afford new housing may also be affected by an increase in sales price, whether the result of inflation or demand.

Seasonality

The Company has historically closed more units in the second half of the fiscal year than in the first half, due in part to the slightly seasonal nature of the market for its semi-custom, luxury product homes. The Company expects that this seasonal trend will continue in the future, but may change slightly as operations expand within the move-up segment of the market.

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Pro Forma Results of Operations

The analysis of the activities and operations of the Company should be considered in light of the operations of Monterey. To assist in the understanding of those operations management has prepared pro forma condensed combined operating results for discussion purposes. Those results are presented for the years ended December 31, 1996 and 1995 and they reflect the impact of combining Monterey with the Company as though the acquisition occurred on January 1, 1995. These results are presented only for purposes of analysis and they are not meant to be indicative of future results of operations, nor are they meant to be considered for purposes other than additional information.

<TABLE>
<CAPTION>

Pro Forma Results of Operations	
For the Year Ended December 31,	

1996	1995
(Dollars in thousands, except per share data)	

<S>	<C>	<C>
Sales revenue	\$ 87,754	\$ 71,491
Cost of Sales	75,099	60,557
	-----	-----
Gross profit	12,655	10,934
Selling, general and administrative	7,777	6,792
	-----	-----
Operating income	4,878	4,142
Other income	1,998	2,836
	-----	-----
Earnings before income taxes	6,876	6,978
Income tax expense	756	768
	-----	-----
Net earnings	\$6,120	\$6,210
	=====	=====
Earnings per share	\$1.27	\$1.28
	=====	=====

</TABLE>

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The key assumptions in the pro forma results of operations relate to the following:

- (1) The transaction was consummated on January 1, 1995.
- (2) Compensation expense was adjusted to add the new employees' cost and to deduct the terminated employees' cost.
- (3) The net operating loss was utilized to reduce the maximum amount of taxable income possible.

General

Monterey's results of operations for any period are affected by many factors such as the number of development projects under construction, the length of the development cycle of each

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project, product mix and design, weather, availability of financing, suitable development sites, material and labor, and national and local economic conditions. Historically, Monterey has operated primarily in the semi-custom, luxury segment of the homebuilding industry. Monterey's expansion into the move-up segment of the market has resulted in product mix and design becoming more influential factors affecting the average home sales price and gross margins. Monterey experiences greater competition from other homebuilders in the move-up segment of the market that can affect its ability to increase sales prices even if costs are rising. The average sales price of homes is further influenced by home size and desirability of project locations.

During the past several years the demand for homes and availability of capital for land acquisition, development and home construction in Arizona has increased. In response to these conditions, Monterey has expanded its operations to acquire additional sites for development of new projects. As of December 31, 1996, Monterey was actively selling homes in twelve communities and preparing to open for sales in one new community. At December 31, 1995, Monterey was actively selling homes in five communities. There can be no assurance that the favorable conditions in Arizona will continue, and although housing demand in the Phoenix metropolitan area during 1996 was at record levels, recent reports indicate that there will be a significant slowing in new home sales in the Phoenix metropolitan area and that new home sales in the Tucson metropolitan area will remain relatively flat in 1997. In addition, housing permits in the Tucson metropolitan area remained relatively flat from 1995 to 1996.

Due to faster than anticipated sales and closing rates occurring in certain Monterey subdivisions during 1995 and the slower than anticipated completion of lot development in four new subdivisions in late 1995, Monterey's inventory of finished lots entering 1996 was lower than expected. In spite of the low beginning lot inventory, Monterey was able to complete and begin sales of these lots in 1996, and along with sales in new communities, increased unit sales and home closing revenue in the Scottsdale Area in 1996. Start up costs incurred by in the Tucson Area and merger related costs negatively impacted Monterey's net income in 1996. The continuation of Monterey's past revenue and profitability levels is dependent on its ability to identify and obtain competitively priced and well located replacement land inventory. Strong fourth quarter 1996 deliveries will result in a lower than usual number of home closings in the first quarter of 1997, which will have a material adverse effect on the Company's operating results in the first quarter of 1997.

Year Ended December 31, 1996 Compared to 1995

Home Sales Revenue. Monterey's housing sales revenue for any period is the product of the number of units closed during the period and the average sales price per unit.

The following table presents comparative 1996 and 1995 housing sales revenue.

<TABLE>
<CAPTION>

(Dollars in Thousands)	Year Ending December 31,		Dollar/Unit	Percentage
	1996	1995	Increase (Decrease)	Increase (Decrease)
	----	----	-----	-----
<S>	<C>	<C>	<C>	<C>
Dollars.....	\$86,829	\$67,926	\$18,903	27.8%
Units Closed.....	307	239	68	28.5%
Average Sales Price.....	\$282.8	\$284.2	(\$1.4)	(1.0%)

The increase in revenues of approximately \$19 million during 1996 over the previous year was caused by the increase in unit closings partially offset by lower average sales prices. The average sales price decreased from the prior year due to an increase in closings produced by Monterey's lower priced move-up subdivisions, which made up approximately 55% of the homes closed in 1996. The average sales price of Monterey's luxury, semi-custom product line is in excess of \$300,000 and Monterey's move-up product line averages \$205,000. Unit closings increased due to the growth in the number of subdivisions producing home closings from nine in the prior year to fifteen in the current year.

Land Sales Revenue. Monterey closed one land sale during 1996, which produced revenue of \$925,000 and gross profit of \$506,000 and sold one land parcel during 1995, which produced revenue of \$3,565,000 and gross profit of \$433,000.

Gross Profit. Gross profit equals sales revenue, net of cost of sales, which include developed lot costs, unit construction costs, amortization of common community costs (such as the cost of model complex and architectural, legal and zoning costs), interest, sales tax, warranty, construction overhead and closing costs.

The following table presents comparative 1996 and 1995 gross profit.

<TABLE>
<CAPTION>

Percentage (Dollars in Thousands) Increase (Decrease)	Year ending December 31,		Dollar/Unit
	1996	1995	Increase (Decrease)
	----	----	-----
<S>	<C>	<C>	<C>
<C>			
Dollars.....	\$12,665	\$10,934	\$1,721
15.7%			
Percent of Housing Revenues..... (9.3%)	14.6%	16.1%	(1.5%)

The increase in gross profit is primarily attributable to a 27.8% increase in dollar revenues offset slightly by a 1.5% decrease in the gross profit margin. The gross profit margin decreased slightly mainly due to higher lot costs and capitalized interest in cost of sales which was mostly offset by lower direct construction costs and construction overhead.

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Interest incurred and capitalized by Monterey was \$3,700,000 and \$2,240,000 in 1996 and 1995, respectively. Interest amortized and included in cost of sales in 1996 was \$2,600,000 compared to \$1,700,000 in 1995. As a percentage of revenue the amortized amounts in 1996 and 1995 were 3.0% and 2.4%, respectively.

Selling, General and Administrative Expenses. The selling, general and administrative expenses category includes advertising, model and sales office, sales administration, commissions and corporate overhead costs. Selling, general and administrative expenses were approximately \$7.8 million for the year ended December 31, 1996 compared to approximately \$6.8 million for 1995. Sales commissions paid in 1996 were \$2,581,000 compared to \$2,039,000 in 1995, an increase of 27%, based on greater sales volume. There were also increased advertising and overhead expenses generated in supporting a greater number of active subdivisions

Net Earnings. Net earnings decreased to approximately \$6.1 million for the year ended December 31, 1996 from approximately \$6.2 million for the prior year. This decrease is primarily the result of a \$1 million decrease in interest income from real estate loans along with increased selling and general and administrative expenses offset by greater gross profit recognized from housing

revenues.

Other Operating Matters

Net Orders. Net orders for any period represent the number of units ordered by customers (net of units canceled) multiplied by the average sales price per units ordered.

The following table presents comparative 1996 and 1995 net orders.

<TABLE>
<CAPTION>

(Dollars in Thousands)	Year Ending December 31,		Dollar/Unit Increase (Decrease)	Percentage Increase (Decrease)
	1996	1995		
<S>	<C>	<C>	<C>	<C>
Dollars.....	\$90,182	\$59,933	30,249	50.5%
Units Ordered.....	283	241	42	17.4%
Average Sales.....	\$318.6	\$248.7	\$69.9	28.1%

The dollar volume of net orders increased by 50.5% over the prior year due to an increase in average sales prices and higher unit sales. The average sales price increased due to a greater portion of sales occurring in Monterey's lower-priced move-up communities during the prior year. The increase in net orders is primarily attributable to a greater number of subdivisions open for sale.

Monterey does not include sales which are contingent upon the sale of the customer's existing home as orders until the contingency is removed. Historically Monterey has experienced a cancellation rate of less than 16% of gross sales.

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Net Sales Backlog. Backlog represents net orders of Monterey which have not closed.

The following table presents comparative 1996 and 1995 net sales backlog.

<TABLE>
<CAPTION>

(Dollars in Thousands)	Year Ending December 31,		Dollar/Unit Increase (Decrease)	Percentage Increase (Decrease)
	1996	1995		
<S>	<C>	<C>	<C>	<C>
Dollars.....	\$42,661	\$37,891	4,770	12.6%
Units Ordered.....	120	144	(24)	(16.7%)
Average Sales.....	\$355.5	\$263.1	\$92.4	35.1%

Dollar backlog increased 12.6% over the December 31, 1995 amount due to an increase in average sales price. Average sales price has increased due to the sell out of Monterey's lower-priced Vintage Condominium subdivision and greater sales in the other move-up communities. Units in backlog decreased due to seasonal fluctuations which cause year-end backlog to typically be lower than at other times during the year.

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Financial and Operating Data of Monterey Prior to the Merger

As a result of the Merger, management believes that the Combined Financial Data for Monterey for the year ended December 31, 1996, and for each of the years in the five-year period then ended, are also relevant in evaluating the Company's operating results on a going forward basis. Accordingly, the table below sets forth certain financial and operating data regarding Monterey.

Monterey Combined Financial Data
(Dollars In Thousands, Except Per Share Data)

<TABLE>
<CAPTION>

	Year Ended December 31,			
	1996	1995	1994	1993
1992				
<S>	<C>	<C>	<C>	<C>
<C>				

Operating Statement Data:

Total revenues.....	\$87,754	\$71,491	\$60,941	\$40,543
\$35,111				
Cost of sales.....	74,874	60,332	50,655	34,664
29,544				
Selling, general and administrative expenses.....	6,863	4,899	4,123	3,267
3,383				

Operating income.....	6,017	6,260	6,163	2,612
2,184				
Other income (expense).....	(49)	141	102	(92)
32				

Net earnings.....	\$5,968	\$ 6,401	\$ 6,265	\$ 2,520
\$ 2,216				
=====				

Year Ended December 31,

	1996	1995	1994	1993

1992				

Operating Data: (Unaudited)				
Unit sales contracts (net of cancellations).....	283	241	243	167
151				
Units closed.....	307	239	201	142
133				
Units in backlog at end of period.....	120	144	142	100
75				
Aggregate sales value of homes in backlog.....	\$42,661	\$37,891	\$43,981	\$30,826
\$19,970				
Average sales price per home closed.....	\$ 283	\$ 284	\$ 299	\$ 285
\$ 264				

At December 31,

	1996(1)	1995	1994	1993

1992				

Balance Sheet Data:				
Real estate under development.....	\$36,501	\$33,929	\$17,917	\$13,736
\$9,553				
Total assets.....	45,741	42,654	28,820	19,227
12,366				
Notes payable.....	30,542	24,316	12,255	7,632
3,463				
Stockholders' equity.....	1,783	9,108	6,898	3,121
2,193				

</TABLE>

(1) Does not reflect the Merger consummated on December 31, 1996

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Factors That May Affect Future Results
and Financial Condition of the Company

The Company's future operating results and financial condition are dependent on the Company's ability to successfully design, develop, construct and sell homes that satisfy dynamic customer demand patterns. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable future operating results and financial condition. Potential risks and uncertainties that could affect the Company's future operating results and financial condition include, without limitation, the factors discussed below.

Homebuilding Industry Factors. The homebuilding industry is cyclical and is significantly affected by changes in national and local economic and other conditions, such as employment levels, availability of financing, interest rates, consumer confidence and housing demand. Although the Company believes that its customers (particularly purchasers of luxury homes) are somewhat less price sensitive than generally is the case for other homebuilders, such uncertainties could adversely affect the Company's performance. In addition, homebuilders are subject to various risks, many of which are outside the control of the homebuilders, including delays in construction schedules, cost overruns, changes in government regulation, increases in real estate taxes and other local

government fees, and availability and cost of land, materials, and labor. Although the principal raw materials used in the homebuilding industry generally are available from a variety of sources, such materials are subject to periodic price fluctuations. There can be no assurance that the occurrence of any of the foregoing will not have a material adverse effect on the Company.

Customer demand for new housing also impacts the homebuilding industry. Real estate analysts predict that new home sales in the Phoenix metropolitan area may slow significantly during 1997 and 1998 and that such sales in the Tucson metropolitan area will remain relatively flat in 1997. Any such slowing in new home sales would have a material adverse affect on the Company's business and operating results.

The homebuilding industry further is subject to the potential for significant variability and fluctuations in real estate values, as evidenced by the changes in real estate values in recent years in Arizona. Although the Company believes that its projects are currently reflected on its balance sheet at appropriate values, no assurance can be given that write-downs of some or all of the Company's projects will not occur if market conditions deteriorate, or that such write-downs will not be material in amount.

Fluctuations in Operating Results. Monterey historically has experienced, and in the future the Company expects to continue to experience, variability in home sales and net earnings on a quarterly basis. Factors expected to contribute to this variability include, among others (i) the timing of home closings and land sales, (ii) the Company's ability to continue to acquire additional land or options to acquire additional land on acceptable terms, (iii) the condition of the real estate market and the general economy in Arizona and in other areas into which the Company

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may expand its operations, (iv) the cyclical nature of the homebuilding industry and changes in prevailing interest rates and the availability of mortgage financing, (v) costs or shortages of materials and labor, and (vi) delays in construction schedules due to strikes, adverse weather conditions, acts of God or the availability of subcontractors or governmental restrictions. As a result of such variability, Monterey's historical financial performance may not be a meaningful indicator of the Company's future results.

Expansion into Tucson Market. The Company began operations in the Tucson, Arizona area in April 1996. Such operations are in the early stage and, accordingly, there can be no assurance that the Company's Tucson operations will be successful.

Interest Rates and Mortgage Financing. The Company believes that its customers (particularly purchasers of luxury homes) have been somewhat less sensitive to interest rates than many homebuyers. However, many purchasers of the Company's homes finance their acquisition through third-party lenders providing mortgage financing. In general, housing demand is adversely affected by increases in interest rates and housing costs and the unavailability of mortgage financing. If mortgage interest rates increase and the ability of prospective buyers to finance home purchases is consequently adversely affected, the Company's home sales, gross margins, and net income may be adversely impacted and such adverse impact may be material. In any event, the Company's homebuilding activities are dependent upon the availability and costs of mortgage financing for buyers of homes owned by potential customers so those customers ("move-up buyers") can sell their homes and purchase a home from the Company. Any limitations or restrictions on the availability of such financing could adversely affect the Company's home sales. Furthermore, changes in federal income tax laws may affect demand for new homes. From time to time, proposals have been publicly discussed to limit mortgage interest deductions and to eliminate or limit tax-free rollover treatment provided under current law where the proceeds of the sale of a principal residence are reinvested in a new principal residence. Enactment of such proposals may have an adverse effect on the homebuilding industry in general, and on demand for the Company's products in particular. No prediction can be made whether any such proposals will be enacted and, if enacted, the particular form such laws would take.

Competition. The homebuilding industry is highly competitive and fragmented. Homebuilders compete for desirable properties, financing, raw materials, and skilled labor. The Company competes for residential home sales with other developers and individual resales of existing homes. The Company's competitors include large homebuilding companies, some of which have greater financial resources than the Company, and smaller homebuilders, who may have lower costs than the Company. Competition is expected to continue and become more intense and there may be new entrants in the markets in which the Company currently operates. Further, the Company will face a variety of competitors in other new markets it may enter in the future.

Lack of Geographic, Limited Product Diversification. The Company's operations are presently localized in the metropolitan Phoenix, Arizona area, particularly in the City of

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Scottsdale. The Company began operations in Tucson, Arizona in April 1996. The Company currently operates in two primary market segments: the semi-custom, luxury market and the move-up buyer market. Failure to be geographically or

economically diversified could have a material adverse impact on the Company if the homebuilding market in Arizona should decline, because there would not be a balancing opportunity in a healthier market in other geographic regions or market segments. In this regard, although housing permits in the Phoenix metropolitan area were at record levels during 1996, real estate analysts predict that new home sales will slow significantly during 1997 and 1998. Housing permits in the City of Scottsdale decreased moderately from 1995 to 1996. Housing permits in the Tucson metropolitan area have remained relatively flat from 1995 to 1996, and are expected to remain flat in 1997. In addition, the Company's limited product line could have an adverse impact on the Company compared to homebuilders who might have a variety of homes in different price ranges such that the results in one product line could offset changes in another.

Additional Financing; Limitations. The homebuilding industry is capital intensive and requires significant up-front expenditures to acquire land and begin development. Accordingly, the Company incurs substantial indebtedness to finance its homebuilding activities. At December 31, 1996, the Company's liabilities totaled approximately \$45,876,000. The Company may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including bank financing and/or securities offerings. In addition, lenders are increasingly requiring developers to invest significant amounts of equity in a project both in connection with origination of new loans as well as the extension of existing loans. If the Company is not successful in obtaining sufficient capital to fund its planned capital and other expenditures, new projects planned or begun may be delayed or abandoned. Any such delay or abandonment could result in a reduction in home sales and may adversely affect the Company's operating results. There can be no assurance that additional debt or equity financing will be available in the future or on terms acceptable to the Company.

In addition, the amount and types of indebtedness that the Company can incur is limited by the terms and conditions of its current indebtedness. The Company must comply with numerous operating and financial maintenance covenants and there can be no assurance that the Company will be able to maintain compliance with such financial and other covenants. Failure to comply with such covenants would result in a default and resulting cross defaults under the Company's other indebtedness, and could result in acceleration of all such indebtedness. Any such acceleration would have a material adverse affect on the Company.

Government Regulations; Environmental Considerations. The Company is subject to local, state, and federal statutes and rules regulating certain developmental matters, as well as building and site design. In addition, the Company is subject to various fees and charges of governmental authorities designed to defray the cost of providing certain governmental services and improvements. The Company may be subject to additional costs and delays or may be precluded entirely from building projects because of "no growth" or "slow growth" initiatives, building permit allocation ordinances, building moratoriums, or similar government regulations

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that could be imposed in the future due to health, safety, welfare, or environmental concerns. The Company must also obtain certain licenses, permits, and approvals from certain government agencies to engage in certain of its activities, the granting or receipt of which are beyond the Company's control.

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

Planned Expansion. The Company may in the future expand into other areas of the Southwestern and Western United States. To date, the Company has had no operating experience in areas other than its current markets. Operations in new locations may result in certain operating inefficiencies and higher costs. Further, the Company may experience problems with certain matters in new markets which it has not historically had, such as zoning matters, environmental matters, other regulations and higher costs. There can be no assurance that the Company can expand into new markets on a profitable basis or that it can successfully manage its expansion in such new markets, if any.

Future Acquisitions. The Company may acquire other homebuilding companies to expand its operations. There is no assurance that the Company will identify acquisition candidates that would result in successful combinations or that any such acquisitions will be consummated on acceptable terms. The magnitude, timing and nature of any future acquisitions will depend on a number of factors, including suitable acquisition candidates, the negotiation of acceptable terms, the Company's financial capabilities, and general economic and business conditions. Any future acquisitions by the Company may result in potentially dilutive issuances of equity securities, the incurrence of additional debt and amortization of expenses related to goodwill and intangible

assets that could adversely affect the Company's profitability. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of operations of the acquired company, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has had no or only limited direct experience and the potential loss of key employees of the acquired company.

Dependence on Key Personnel. The Company's success is largely dependent on the continuing services of certain key persons, including William W. Cleverly and Steven J. Hilton, and the ability of the Company to attract new personnel required to continue the development of the Company. The Company has entered into five-year employment agreements with each of Messrs. Cleverly and Hilton. A loss by the Company of the services of Messrs. Cleverly or Hilton, or certain other key persons, could have a material adverse effect on the Company.

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Dependence on Subcontractors. The Company conducts its business only as a general contractor in connection with the design, development and construction of its communities. Virtually all architectural and construction work is performed by subcontractors of the Company. As a consequence, the Company is dependent upon the continued availability and satisfactory performance by unaffiliated third-party subcontractors in designing and building its homes. There is no assurance that there will be sufficient availability of such subcontractors to the Company, and the lack of availability of subcontractors could have a material adverse affect on the Company.

Mortgage Asset Considerations. As of December 31, 1996, the Company's portfolio of residual interests had a net balance of approximately \$3,909,000. The results of the Company's operations will depend, in part, on the level of net cash flows generated by the Company's mortgage assets. 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. 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 Risk. 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. Prepayment experience also may be affected by the geographic location of the mortgage loan 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.

No assurance can be given as to the actual prepayment rate of mortgage loan 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's mortgage assets. A portion of the mortgage securities secured by the Company's

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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). 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 from its mortgage assets. Conversely, decreases in short-term interest rates decrease the interest cost on the variable rate mortgage securities and, thus, tend to increase such 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 decrease in mortgage interest

rates. 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 from the Company's mortgage assets.

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.

Inability to Predict Effects of Market Risks. Because none of the above factors including changes in prepayment rates, interest rates, expenses and borrowing costs are susceptible to accurate projection, the net cash flows generated by the Company's mortgage assets cannot be predicted.

Item 8. Financial Statements and Supplementary Data

Financial Statements of the Company as of December 31, 1996 and for the year then ended, together with related notes and the Report of KPMG Peat Marwick LLP, independent auditors, and financial statements of the Company as of December 31, 1995 and for each of the years in the two-year period ending December 31, 1995, together with related notes and the Report of Ernst & Young LLP, independent auditors, are set forth on the following pages. Other required financial information set forth herein is more fully described in Item 14 hereof.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Monterey Homes Corporation

We have audited the accompanying consolidated balance sheet of Monterey Homes Corporation and subsidiaries (previously known as Homeplex Mortgage Investments Corporation and subsidiaries) as of December 31, 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the financial position of Monterey Homes Corporation and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Phoenix, Arizona
February 21, 1997

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Monterey Homes Corporation

We have audited the accompanying consolidated balance sheet of Monterey Homes Corporation and subsidiaries (previously known as Homeplex Mortgage Investments Corporation and subsidiaries) as of December 31, 1995 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two 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 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 Monterey Homes Corporation and subsidiaries as of December 31, 1995 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Phoenix, Arizona
February 13, 1996

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 1996 and 1995

<TABLE>
<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	\$ 15,567,918	\$ 3,347,243
Short-term investments (Note 3)	4,696,495	8,969,100
Real estate loans and other receivables (Note 4)	2,623,502	4,047,815
Real estate under development (Note 5)	35,991,142	--
Option deposits	546,000	--
Residual interests (Note 6)	3,909,090	5,457,165
Other assets	940,095	356,684
Funds held by Trustee	--	5,637,948
Deferred tax asset (Note 11)	6,783,000	--
Goodwill (Note 10)	1,763,488	--
	-----	-----
	\$ 72,820,730	\$ 27,815,955
	=====	=====
LIABILITIES		
Accounts payable and accrued liabilities	\$ 10,569,872	\$ 1,549,481
Home sale deposits	4,763,518	--
Notes payable (Note 7)	30,542,276	7,818,824
	-----	-----
Total Liabilities	45,875,666	9,368,305
	-----	-----
STOCKHOLDERS' EQUITY (Notes 8 and 10)		
Common stock, par value \$.01 per share; 50,000,000 shares authorized; issued and outstanding - 4,580,611 shares at December 31, 1996, and 3,291,885 shares at December 31, 1995	45,806	32,919
Additional paid-in capital	92,643,658	84,112,289
Accumulated deficit	(65,334,117)	(65,287,275)
Treasury stock - 53,046 shares	(410,283)	(410,283)
	-----	-----
Total Stockholders' Equity	26,945,064	18,447,650
	-----	-----
Commitments and contingencies (Notes 9 and 12)	\$ 72,820,730	\$ 27,815,955
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1996, 1995 and 1994

<TABLE>
<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Income (loss) from Mortgage Assets			
Interest income on real estate loans	\$ 571,139	\$ 1,618,308	\$ 1,112,445
Income (loss) from residual interests (Note 6)	1,039,247	1,283,045	(2,662,734)

Other income	633,449	663,343	347,882
	-----	-----	-----
	2,243,835	3,564,696	(1,202,407)
	-----	-----	-----
Expenses			
Interest	237,945	868,414	1,382,951
General, administration and other	1,683,407	1,599,157	1,938,047
	-----	-----	-----
	1,921,352	2,467,571	3,320,998
	-----	-----	-----
Income (loss) before income tax expense and extraordinary loss from early extinguishment of debt	322,483	1,097,125	(4,523,405)
Income tax expense (Note 11)	26,562	--	--
	-----	-----	-----
Income (loss) before extraordinary loss from early extinguishment of debt	295,921	1,097,125	(4,523,405)
Extraordinary loss from early extinguishment of debt (Note 7)	(148,433)	--	--
	-----	-----	-----
Net Income (loss)	\$ 147,488	\$ 1,097,125	(\$4,523,405)
	=====	=====	=====
Earnings (loss) per share:			
Income before extraordinary loss from early extinguishment of debt	\$ 0.09	\$ 0.34	(\$ 1.40)
Extraordinary loss from early extinguishment of debt	(0.05)	--	--
	-----	-----	-----
Net Income (loss)	\$ 0.04	\$ 0.34	(\$ 1.40)
	=====	=====	=====
Dividends declared per share	\$ 0.06	\$ 0.09	\$ 0.06
	=====	=====	=====
Weighted average common shares outstanding	3,334,562	3,245,767	3,240,204
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
--			
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 147,488	\$ 1,097,125	(\$
4,523,405)			
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Extraordinary loss from early extinguishment of debt	148,433	--	--
Depreciation and amortization	38,300	122,970	332,429
Amortization of residual interests	1,548,076	2,196,394	6,738,000
(Increase) decrease in other assets	153,350	370,454	
(361,675)			
Increase (decrease) in accounts payable and accrued liabilities	317,094	(272,828)	243,789
Net write-downs and non-cash losses on residual interests	--	--	3,342,773
	-----	-----	-----
Net cash provided by operating activities	2,352,741	3,514,115	5,771,911
	-----	-----	-----
--			
Cash flows from investing activities:			
Cash acquired in Monterey Merger (Note 10)	6,495,255	--	--
Cash paid for Merger costs (Note 10)	(779,097)	--	--
Principal payments received on real estate loans	3,710,000	9,114,000	670,000
Real estate loans funded	(1,358,457)	(3,902,000)	
(9,610,000)			
(Increase) decrease in short term investments	4,272,605	(8,969,100)	--
Decrease in funds held by Trustee	5,637,948	1,082,549	2,040,528
	-----	-----	-----
Net cash provided (used in) by investing activities	17,978,254	(2,674,551)	(6,899,472)
	-----	-----	-----
--			

Cash flows from financing activities:			
Repayment of borrowings	(7,818,824)	(3,964,000)	
(8,143,532)			
Distributions to shareholders	(291,496)	(194,330)	
(291,951)			
Repurchases of common stock, net of common stock issuances	--	--	
(17,481)			
--			
Net cash used in financing activities	(8,110,320)	(4,158,330)	
(8,452,964)			
--			
Net increase (decrease) in cash and cash equivalents	12,220,675	(3,318,766)	(9,580,525)
Cash and cash equivalents at beginning of year	3,347,243	6,666,009	16,246,534
--			
Cash and cash equivalents at end of year	\$ 15,567,918	\$ 3,347,243	\$ 6,666,009
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 286,276	\$ 804,113	\$ 1,245,952
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Years Ended December 31, 1996, 1995 and 1994

<TABLE>
<CAPTION>

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
Total	-----	-----	-----	-----	-----
--					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Balance at December 31, 1993	3,291,885	\$ 32,919	\$ 84,112,289	(\$61,375,169)	
(\$392,802) 22,377,237					
Treasury stock acquired - 5,067 shares	--	--	--	--	
(17,481) (17,481)					
Net loss	--	--	--	(4,523,405)	--
(4,523,405)					
Dividend declared	--	--	--	(194,330)	--
(194,330)					
--					
Balance at December 31, 1994	3,291,885	32,919	84,112,289	(66,092,904)	
(410,283) 17,642,021					
Net income	--	--	--	1,097,125	--
1,097,125					
Dividend declared	--	--	--	(291,496)	--
(291,496)					
--					
Balance at December 31, 1995	3,291,885	32,919	84,112,289	(65,287,275)	
(410,283) 18,447,650					
Net income	--	--	--	147,488	--
147,488					
Dividend declared	--	--	--	(194,330)	--
(194,330)					
Shares issued in connection with Merger (Note 10)	1,288,726	12,887	8,531,369	--	--
8,544,256					
--					
Balance at December 31, 1996	4,580,611	\$ 45,806	\$ 92,643,658	(\$65,334,117)	
(\$410,283) \$ 26,945,064					
=====	=====	=====	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Monterey Homes Corporation (previously Homeplex Mortgage Investments Corporation), the Company, commenced operations in July 1988. Prior to the Merger (see Note 10), the Company's main line of business was investing in mortgage certificates securing collateralized mortgage obligations (CMOs), interests relating to mortgage participation certificates (MPCs) (collectively residual interests) and loans secured by real estate (see Notes 4 and 3, respectively).

The combined entities intend to continue with Monterey Homes' building operations as its main line of business. The operations are currently conducted primarily in the Phoenix, Scottsdale and Tucson, Arizona markets, which are significantly impacted by the strength of surrounding real estate markets and levels of interest rates offered on home mortgage loans. The Arizona real estate market is currently experiencing strong growth and current home mortgage interest rates are favorable for home buyers and sellers, although recent reports project a slowing in housing demand in the metropolitan Phoenix area, and housing permits in the Tucson metropolitan area have increased only slightly from 1995 to 1996. A decline in the Arizona real estate market or an increase in interest rates could have a significant impact on the Company's operating results and estimates made by management. The Company utilizes various suppliers and subcontractors and is not dependent on individual suppliers or subcontractors.

Basis of Presentation

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

Upon consummation of the Merger a one-for-three reverse stock split of the Company's issued and outstanding common stock, \$.01 par value per share, was effected. Except as otherwise indicated, the share information contained herein reflects the one-for-three reverse stock split.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents of approximately \$856,000 at December 31, 1996, is restricted as collateral for the payment of the Company's short-term credit facility (Note 7).

Real Estate Under Development

Real estate under development includes undeveloped land and developed lots, homes under construction in various stages of completion and completed homes. The Company values its real estate under development in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Accordingly, amounts are carried at cost unless expected future net cash flows (undiscounted and without interest) are less than cost and then amounts are carried at estimated fair value less cost to sell. Adoption of this Statement did not have a

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material impact on the Company's financial position, results of operations or liquidity. Costs capitalized include direct construction costs for homes, development period interest and certain common costs which benefit the entire subdivisions. Cost of sales include land acquisition and development costs, direct construction costs of the home, development period interest and closing costs, and an allocation of common costs. Common costs are allocated on a subdivision by subdivision basis to residential lots based on the number of lots to be built in the subdivision, which approximates the relative sales value method.

Deposits paid related to options to purchase land are capitalized and included in option deposits until the related land is purchased. Upon purchase of the land, the related option deposits are transferred to real estate under development.

Residual Interests

Interests relating to mortgage participation certificates and residual interest certificates are accounted for as described in Note 6.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Net property and equipment was \$268,096 and \$11,195 at December 31, 1996 and 1995, respectively, and is included in other assets in the accompanying consolidated balance sheets for those years.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 20 years, which is the expected period to be benefited. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations as an adjustment to the effective income tax rate in the period that includes the enactment date.

Net Income (Loss) Per Share

For 1996 and 1995, primary net income per share is calculated using the weighted average number of common and common stock equivalent shares outstanding during the year. Common stock equivalents of 92,224 and 6,928 in 1996 and 1995, respectively, consist of dilutive stock options and contingent stock. Net loss per share for 1994 is calculated using the weighted average number of common shares outstanding during the year.

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Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The carrying amounts of the Company's receivables, cash and cash equivalents, option deposits, accounts payable and accrued liabilities and home sale deposits approximate their estimated fair values due to the short maturity of these assets and liabilities. The fair value of the Company's short-term investments and residual interests is discussed in Notes 3 and 6, respectively. The carrying amount of the Company's notes payable approximates fair value because the notes are at interest rates comparable to market rates based on the nature of the loans, their terms and the remaining maturity. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these fair value estimates are not necessarily indicative of the amounts the Company would pay or receive in actual market transactions.

Stock Option Plan

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Reclassifications

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 financial statement presentation.

NOTE 3 - SHORT-TERM INVESTMENTS

At December 31, 1996, short-term investments, recorded at fair value, consist of three CMO PAC bonds with a combined principal balance of approximately \$4,700,000, estimated yields to maturity of approximately 5.2% to 5.4% and estimated maturities of approximately two to four months. At December 31, 1995, short-term investments consisted 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%. Short-term investments are restricted as collateral for the payment of the Company's short-term credit facility (Note 7).

NOTE 4 - REAL ESTATE LOANS AND OTHER RECEIVABLES

The following is a summary of the real estate loans and other receivables outstanding at December 31:

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<TABLE>
<CAPTION>

Description -----	Interest Rate -----	Payment Terms -----	Principal and Carrying Amount (1)	
			1996 ----	1995 ----
<S>	<C>	<C>	<C>	<C>
First Deed of Trust on 41 acres of land in Gilbert, Arizona, face amount of \$2,800,000. (2)	16%	Interest only monthly, principal due October 18, 1997.	\$1,696,272	\$1,277,413
First Deed of Trust on 33 acres of land in Tempe, Arizona.	16%	Paid in full in 1996.	-	2,272,402
First Deed of Trust on 21.4 acres of land in Tempe, Arizona.	16%	Paid in full in 1996.	-	498,000
Other receivables consisting primarily of sales commission advances and home closing proceeds due from title companies.	-	-	927,230	-
			----- \$2,623,502 =====	----- \$4,047,815 =====

</TABLE>

- (1) Principal payments on real estate loans were \$3,710,000 in 1996, and loan draws were \$1,358,457 in 1996.
- (2) Loan was current at December 31, 1996.

NOTE 5 - REAL ESTATE UNDER DEVELOPMENT

The components of real estate under development at December 31, 1996 are as follows:

Homes in production.....	\$22,839,500
Finished lots and lots under development.....	13,151,642

	\$35,991,142
	=====

NOTE 6 - RESIDUAL INTERESTS

The Company owns residual interests in collateralized mortgage obligations (CMOs) and in mortgage participation certificates (MPCs) (collectively residual interests). The residual interests are accounted for using the prospective net level yield method, in which the interest is recorded at cost and amortized over the life of the related CMO or MPC issuance.

The projected yield and estimated fair value of the Company's residual interests are based on prepayment, interest rate and fair value assumptions. 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.

At December 31, 1996, the estimated prospective net level yield of the

Company's residual interests, in the aggregate, is 29% without early redemptions or terminations being considered and 121% if early redemptions or terminations are considered. Based on discussions with brokers and investors who trade residual interests, Management believes that the estimated fair value of the Company's residual interests, in the aggregate, is approximately \$7,000,000 at December 31, 1996 (\$5,500,000 at December 31, 1995). This estimated fair value is based on prevailing market interest rates at December 31, 1996. Should interest rates increase in the future, the fair value amount could decrease significantly.

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Interests In Residual Interest Certificates

The Company owns residual interest certificates representing the residual interests in five series of CMOs secured by fixed interest rate mortgage certificates and cash funds held by trustee. The classes of CMOs have either fixed interest rates or 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.

The 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 real estate mortgage investment conduits ("REMICs"). The Company also has the right, under certain conditions, to cause an early redemption of the CMOs, in which the mortgage certificates are sold at the then current market price and the CMOs repaid at par value, with any excess cash flowing to the Company. Generally, the remaining outstanding CMO balance must be less than 10% of the original balance before early redemption can take place.

Interests In Mortgage Participation Certificates

The Company owns residual interests in REMICs with respect to three separate series of Mortgage Participation Certificates (MPCs). These residual interests entitle the Company to receive its proportionate share of the excess, if any, of payments received from the fixed rate 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 related administrative expenses and does not have the right to elect early termination of any of the MPC classes. The classes of the MPCs either have fixed interest rates or interest rates that are determined monthly based on LIBOR or based on the Monthly Weighted Average Cost of Funds Index (COFI) for Eleventh District Savings Institutions as published by the Federal Home Loan Bank of San Francisco, subject to specified maximum interest rates. At December 31, 1996, LIBOR was 5.35% and COFI was 4.84%.

The following summarizes the Company's investment in residual interests at December 31, 1996 and 1995.

<TABLE>

<CAPTION>

Series	Type Of Investments	Company's Amortized Costs		Company's Percentage Ownership
		1996	1995	
<S>	<C>	<C>	<C>	<C>
Westam 1	Residual Interest Certificate	\$ 386,192	\$ 702,918	100.00%
Westam 3	Residual Interest Certificate	24,495	29,923	100.00%
Westam 5	Residual Interest Certificate	157,385	204,033	100.00%
Westam 6	Residual Interest Certificate	1,845	11,731	100.00%
ASW 65	Residual Interest Certificate	1,996,601	2,520,574	100.00%
FHLMC 17	Interest in MPCs	93,112	140,035	100.00%
FNMA 1988-24	Interest in MPCs	762,510	1,220,418	20.20%
FNMA 1988-25	Interest in MPCs	486,950	627,533	45.07%
		-----	-----	
		\$3,909,090	\$5,457,165	
		=====	=====	

</TABLE>

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NOTE 7 - NOTES PAYABLE

In December 1996, Monterey consolidated its outstanding construction, acquisition and development ("A&D") and term loan notes to various banks into a single revolving credit agreement. The components of this loan are (i) a revolving \$20,000,000 line of credit to finance construction, (ii) a revolving \$20,000,000 guidance line facility to finance acquisition and development, and

(iii) a \$6,052,000 term loan to refinance an existing note. Both the construction and A&D lines of credit are secured by first deeds of trust on land. The term loan is cross-collateralized with the credit facility and is secured by cash and short-term investments.

Notes payable consist of the following at December 31:

<TABLE> <CAPTION>	1996 -----	1995 -----
<S>	<C>	<C>
Construction line of credit to bank, interest payable monthly approximating prime (8.25% at December 31, 1996) plus .25%, payable at the earlier of close of escrow, maturity date of individual homes within the line or June 19, 2000.....	\$ 7,251,958	N/A
Guidance line of credit to bank for acquisition and development interest payable monthly approximating prime plus .5%, payable at the earlier of funding of construction financing, the maturity date of individual projects within the line or June 19, 2000.....	9,628,993	N/A
Short-term credit facility to bank maturing in August 1997, annual interest of prime plus .5%, principal payments of \$500,000 plus interest payable monthly with remaining principal and interest payable at maturity date.....	5,552,500	N/A
Senior subordinated notes payable, maturing October 15, 2001, annual interest of 13%, payable semi-annually, principal payable at maturity date with a put to the Company at June 30, 1998, unsecured.....	8,000,000	N/A
Notes payable to institutional investment group, secured by residual interests and by funds held by Trustee, annual interest of 7.81%. Note balance paid in full May 15, 1996, resulting in extraordinary loss of approximately \$149,000 from prepayment penalties and the write-off of unamortized debt costs.....	0	\$7,818,824
Other.....	108,825	N/A
	-----	-----
Total.....	\$30,542,276 =====	\$7,818,824 =====

</TABLE>

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The principal payment requirements on notes payable, as of December 31, 1996 are as follows:

	Year ending December 31, -----
1997.....	\$15,653,873
1998.....	6,888,403
1999.....	-
2000.....	-
2001 and thereafter.....	8,000,000

	\$30,542,276 =====

A provision of the senior subordinated bond indenture provides the bondholders with the option, at June 30, 1998, to require the Company to buy back the bonds at 101% of face value. Also, approximately \$2,800,000 of the bonds are held by the Co-Chief Executive Officers of the Company.

NOTE 8 - STOCK OPTIONS

At December 31, 1996, the Company has one stock based compensation plan which is described below. The per share weighted average fair value of stock options granted during 1996 and 1995 was \$1.63 on the date of grant using the Black Scholes pricing model with the following weighted average assumptions; expected dividend yield 1.40%, risk-free interest rate of 5.85% and an expected life of five years. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. No compensation cost has been recognized for its stock based compensation plan (which is a fixed stock option plan). Had compensation cost for the Company's stock based compensation plan been determined consistent with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1996 -----	1995 -----
Net income (loss)	As reported	\$147,488	\$1,097,125
	Pro forma	(151,345)	988,458
Earnings (loss) per share	As reported	\$.04	\$.34
	Pro forma	(\$.05)	\$.30

The Company's Stock Option Plan 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 145,833 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.

At December 31, 1996, 148,498 options, including dividend equivalent rights, were exercisable at effective exercise prices ranging from \$3.63 per share to \$13.32 per share. At December 31, 1996 and 1995, 119 common shares were available for future grants.

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Optionholders also receive, at no additional cost, dividend equivalent rights (DER's) 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, 1996 and 1995 accounts payable and accrued 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.

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

For the Year ended December 31, -----	1996 ----	1995 ----	1994 ----
<S>	<C>	<C>	<C>
Options granted.....	-	24,667	-
Exercise price per share of options granted.....	-	\$4.50	-
DER's granted.....	1,249	2,909	2,593
Options cancelled (including DER's).....	-	11,424	-
Options exercised (including DER's).....	-	-	-
At December 31, -----		1996 ----	1995 ----
Options outstanding.....		95,256	95,256
DER's outstanding.....		54,385	53,136
Total options and DER's outstanding.....		149,641 =====	148,392 =====

</TABLE>

In addition to the above referenced options, in December 1995, in connection with the renegotiation of the prior Chief Executive Officer's Employment Agreement, the Company replaced his annual salary of \$250,000 plus bonus with 250,000 non-qualified stock options which became fully vested upon the Merger at December 31, 1996. The exercise price of the options is \$4.50 per share which was equal to the closing market price of the common stock on grant date. The options will expire in December 2000.

At the 1997 Annual Meeting of Stockholders to be held on May 29, 1997, a new stock option plan will be submitted for stockholder approval. It is currently anticipated that 225,000 shares of the Company's common stock will be reserved for issuance upon the exercise of stock options granted under the new plan. The plan will be administered by the Compensation Committee of the Board of Directors and will provide for grants of incentive stock options to key employees and non-qualified stock options to Directors and key employees. The purpose of this new plan is to provide a means of performance-based compensation in order to attract and retain key personnel whose job performance affects the Company.

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NOTE 9 - LEASES

The Company leases office facilities, model homes and equipment under various operating lease agreements.

The following is a schedule of approximate future minimum lease payments for noncancellable operating leases as of December 31, 1996:

	Year Ending December 31, -----
1997.....	\$ 937,981
1998.....	363,927
1999.....	201,907
Thereafter.....	0

	\$1,503,815
	=====

Rental expense was \$22,639 and \$21,780 for the years ended December 31, 1995 and 1996, respectively.

NOTE 10 - HOMEPLEX / MONTEREY MERGER

On December 23, 1996, the stockholders of Homeplex Mortgage Investments Corporation, now known as Monterey Homes Corporation (the "Company"), approved the Merger (the "Merger") of Monterey Homes Construction II, Inc. and Monterey Homes Arizona II, Inc., both Arizona corporations (collectively, the "Monterey Entities" or "Monterey"), with and into the Company. The Merger was effective on December 31, 1996, and the Company will focus on homebuilding as its primary business. Also, ongoing operations of the Company will be managed by the two previous stockholders of Monterey, who at the time of the Merger, became Co-Chief Executive Officers with one serving as Chairman and the other as President. At consummation of the Merger, 1,288,726 new shares of common stock, \$.01 par value per share, were issued equally to the Co-Chief Executive Officers.

Monterey, in connection with an \$8,000,000 subordinated debt private placement that occurred during October 1994, issued warrants to the bondholders to purchase approximately 16.48% of Monterey. Accordingly, of the 1,288,726 shares issued in the Merger, 212,398 are held by the Company on behalf of the Co-Chief Executive Officers, to be delivered to the warrant holders upon payment of the warrant exercise price to the Co-Chief Executive Officers. Upon expiration of the warrants, any of the remaining 212,398 will be delivered to the Co-Chief Executive Officers.

In addition, up to 266,667 shares of contingent stock will be issued equally to the Co-Chief Executive Officers provided that certain stock trading price thresholds are met and that the Officer is still an employee of the Company at the time of issuance. The price thresholds are \$5.25, \$7.50 and \$10.50 for dates after the first, second and third anniversaries of the Merger, respectively, and the prices must be maintained for 20 consecutive trading days. The number of contingent shares issued would be 44,943, 88,889 and 88,889, respectively. Included in the above mentioned 266,667 contingent shares are 43,947 shares (approximately 16.48%) issuable to the Company's warrant holders, upon exercise of the warrants. Such shares are not subject to meeting certain stock trading price thresholds or employment of the Co-Chief Executive Officers. Upon expiration of unexercised warrants, any of the remaining 43,947 contingent shares will be issued to the Co-Chief Executive Officers.

The total consideration paid by the Company for the net assets of Monterey Homes was \$9,323,353. This amount included 1,288,726 shares of the Company's common stock valued at \$8,544,256 and \$779,097 of transaction costs. The purchase method of accounting was used by the Company, and the purchase price was allocated among the Monterey net assets based on their estimated fair market value at the date of

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acquisition, resulting in goodwill of \$1,763,488 which will be amortized over 20 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the Merger had occurred at January 1, 1995, with pro forma adjustments together with related income tax

effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would actually have resulted had the combination been in effect on the date indicated.

	Years ended December 31, (Unaudited)	
	1996	1995
	-----	-----
Total revenues.....	\$89,990	\$75,195
Net income.....	6,120	6,210
Net earnings per common share.....	1.27	1.28

NOTE 11 - INCOME TAXES

Current income tax expense for the year ended December 31, 1996 was \$26,562 and was attributed to federal estimated tax of \$18,700 and state estimated tax of \$7,862. No current income tax was recorded in 1995 and deferred income tax was -0- in 1996 and 1995.

Deferred Tax Assets

The net deferred tax asset at December 31, 1996 was recorded as part of the Homeplex/Monterey Merger purchase accounting (Note 10).

Deferred tax assets have been recorded in the December 31, 1996 consolidated balance sheet due to temporary differences and carryforwards as follows:

Net operating loss carryforward.....	\$21,200,000
Residual interests basis differences.....	2,100,000
Real estate basis differences.....	400,000
Debt issuance costs.....	266,000
Other.....	85,000

	24,051,000
Valuation allowance.....	(17,268,000)

Deferred tax liabilities.....	0

Net Deferred Tax Asset.....	\$ 6,783,000
	=====

Management of the Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax asset.

Carryforwards

For federal and state income tax purposes, at December 31, 1996 the Company had a net operating loss carryforward of approximately \$53 million that expires beginning in 2007.

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NOTE 12 - CONTINGENCIES

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial statements taken as a whole.

NOTE 13 - QUARTERLY FINANCIAL DATA (Unaudited)

(In Thousands Except Per Share Amount)

	Revenue	Net Income (Loss)	Net Income (Loss) Per Share
	-----	-----	-----
1996			

First.....	\$ 635	\$ 84	\$.03
Second (1).....	636	148	.04
Third.....	530	314	.09
Fourth.....	443	(399)	(.12)

1995

First.....	\$ 1,103	\$ 462	\$.15
Second.....	1,078	335	.10

Third.....	707	58	.02
Fourth.....	677	242	.07

(1) Net income in the second quarter of 1996 includes an extraordinary charge of \$148,000, or \$.05 per share, to record the result of early extinguishment of debt.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

On January 14, 1997, the Company's Board of Directors elected to dismiss its current independent accountants, Ernst & Young LLP, and to replace them with KPMG Peat Marwick LLP. KPMG Peat Marwick LLP served as the independent accountants for the Monterey Entities prior to the Merger.

Ernst & Young LLP rendered unqualified reports with respect to the financial statements of the Company for the two previous fiscal years. In addition, during the two previous fiscal years there were no disagreements between the Company and Ernst & Young LLP with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information respecting continuing directors and nominees of the Company is set forth under the captions "Election of Directors," "Information Concerning Directors, Nominees and Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's Notice and Proxy Statement relating to its 1997 Annual Meeting of Stockholders (the "1997 Proxy Statement") incorporated by reference into this Form 10-K Report. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K Report, the Registrant's 1997 Proxy Statement is not being filed as a part hereof.

Item 11. Executive Compensation

Information respecting executive compensation is set forth under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Director Compensation" and "Employment Agreements" in the 1997 Proxy Statement and is incorporated herein by reference into this Form 10-K report; provided, however, that the information set forth under the captions "Compensation Committee Report on Executive Compensation" and "Stock Price Performance Graph" contained in the 1997 Proxy Statement are not incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information respecting security ownership of certain beneficial owners and management is included under the caption "Security Ownership of Principal Stockholders and Management" in the 1997 Proxy Statement and is incorporated herein by reference.

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Item 13. Certain Relationships and Related Transactions

Information respecting certain relationships and transactions of management is set forth under the caption "Certain Transactions and Relationships" and "Compensation Committee Interlocks and Insider Participation" in the 1997 Proxy Statement and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)	Financial Statements and Schedules.	Page or Method of Filing -----
(i)	Financial Statements.	
(1)	Report of KPMG Peat Marwick LLP	Page 42
(2)	Consolidated Financial Statements and Notes to Consolidated Financial Statements of the Company, including Consolidated Balance Sheets as of December 31, 1996, 1995 and 1994 and related Consolidated Statements of Operations, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 1996	Page 44
(ii)	Financial Statement Schedules.	

Schedules have been omitted because of the absence

of conditions under which they are required or because the required material information is included in the Consolidated Financial Statements or Notes to the Consolidated Financial Statements included herein.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the fourth quarter of 1996. On January 14, 1997, the Company filed a Current Report on Form 8-K dated December 31, 1996, reporting the Merger and a resulting change in certifying accountants. This Form 8-K was amended on January 22, 1997 and March 6, 1997.

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(c) Exhibits.

<TABLE>		
<CAPTION>		
Exhibit Number	Description	Page or Method of Filing
-----	-----	-----
<S>	<C>	<C>
2	Agreement and Plan of Reorganization, dated as of September 13, 1996, by and among Homeplex, the Monterey Merging Companies and the Monterey Stockholders.	Incorporated by reference to Exhibit 2 of the Form S-4 Registration Statement No. 333-15937 ("S-4 #333-15937").
3.1	Amended and Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3(a) of the Registration Statement on Form S-11 No. 33-22092 ("S-11 #33-22092")
3.2	Articles of Merger	Filed herewith
3.3	Bylaws of the Company	Incorporated by reference to Exhibit 3(b) to the Form 10-Q for the quarter ended June 30, 1995.
3.4	Amendment to the Bylaws	Filed herewith
4	Specimen of Common Stock Certificate	Filed herewith
10.1	Subcontract Agreement between Homeplex and American Southwest Financial Services, Inc.	Incorporated by reference to Exhibit 10(b) of S-11 #33-22092.
10.2	Form of Master Servicing Agreement	Incorporated by reference to Exhibit 10(c) of S-11 #33-22092.
10.3	Form of Servicing Agreement	Incorporated by reference to Exhibit 10(d) of S-11 #33-22092.
10.4	Indenture dated October 17, 1994, as amended, relating to 13% Senior Subordinated Notes Due 2001	Incorporated by reference to Exhibit 10(j) of the S-4 # 333-15937.
10.5	Master Revolving Line of Credit by and between Norwest Bank Arizona, N.A. and the Company	Filed herewith

</TABLE>

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<TABLE>		
<CAPTION>		
Exhibit Number	Description	Page or Method of Filing
-----	-----	-----
<S>	<C>	<C>
10.6	Revolving Model Home Lease Back Agreement between AMHM-1, L.P. and the Company	Filed herewith
10.7	Stock Option Plan*	Incorporated by reference to Exhibit 10(d) of Form 10-K for the fiscal year ended December 31, 1995 ("1995 Form 10-K").
10.8	Amendment to Stock Option Plan*	Incorporated by reference to Exhibit 10(e) of the 1995 Form 10-K.
10.9	Monterey Homes Corporation Stock Option Plan *+	Filed herewith

10.10	Employment Agreement between the Company and William W. Cleverly*	Filed herewith
10.11	Employment Agreement between the Company and Steven J. Hilton*	Filed herewith
10.12	Stock Option Agreement between the Company and William W. Cleverly*	Filed herewith
10.13	Stock Option Agreement between the Company and Steven J. Hilton*	Filed herewith
10.14	Registration Rights Agreement between the Company and William W. Cleverly*	Filed herewith
10.15	Registration Rights Agreement between the Company and Steven J. Hilton*	Filed herewith
10.16	Escrow and Contingent Stock Agreement	Filed herewith
10.17	Amended and Restated Employment Agreement and Addendum between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(g) of the 1995 Form 10-K.
10.18	Stock Option Agreement between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(h) of the 1995 Form 10-K
16	Letter Regarding Change in Certifying Accountant	Filed herewith

</TABLE>

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<TABLE>

<CAPTION>

Exhibit Number -----	Description -----	Page or Method of Filing -----
<S>	<C>	<C>
22	List of Significant Subsidiaries	Filed herewith
23.1	Consent of KPMG Peat Marwick LLP	Filed herewith
23.2	Consent of Ernst & Young LLP	Filed herewith
24	Powers of Attorney	See signature page
27	Financial Data Schedule	Filed herewith

</TABLE>

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- * Indicates a management contract or compensation plan.
 - + To be submitted for stockholder approval at the 1997 Annual Meeting of Stockholders to be held on May 29, 1997.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, this 31st day of March, 1997.

MONTEREY HOMES CORPORATION,
a Maryland corporation

By /s/ William W. Cleverly

William W. Cleverly
Chairman of the Board and
Co-Chief Executive Officer

POWER OF ATTORNEY

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

substitutes, may lawfully do or cause to be done by virtue hereof.

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

<TABLE> <CAPTION> Signature - -----	Title -----	Date ----
<S> /s/William W. Cleverly ----- William W. Cleverly </TABLE>	<C> Chairman of the Board and Co-Chief Executive Officer (Co-Principal Executive Officer)	<C> March 31, 1997

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<TABLE> <CAPTION> Signature - -----	Title -----	Date ----
<S> /s/Steven J. Hilton ----- Steven J. Hilton	<C> President and Co-Chief Executive Officer (Co-Principal Executive Officer)	<C> March 31, 1997
/s/Larry W. Seay ----- Larry W. Seay	Vice President - Finance and Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 31, 1997
/s/Alan D. Hamberlin ----- Alan D. Hamberlin	Director	March 31, 1997
/s/Robert G. Sarver ----- Robert G. Sarver	Director	March 31, 1997
/s/C. Timothy White ----- C. Timothy White </TABLE>	Director	March 31, 1997

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ARTICLES OF MERGER

THESE ARTICLES OF MERGER are dated as of December 31, 1996, by and among Homeplex Mortgage Investments Corporation, a Maryland corporation ("Surviving Company"), and Monterey Homes Construction II, Inc., an Arizona corporation ("MHC II") and Monterey Homes Arizona II, Inc., an Arizona corporation ("MHA II", together with MHC II, the "Merged Companies"), such corporations sometimes hereinafter being jointly referred to as the "Constituent Corporations".

W I T N E S S E T H:

WHEREAS, Surviving Company, the Merged Companies, and the shareholders of the Merged Companies, have entered into an Agreement and Plan of Reorganization (the "Agreement") in which the parties thereto agreed, among other things, that each of the Merged Companies would be merged with and into Surviving Company (the "Merger");

NOW, THEREFORE, the following is adopted as and for the Articles of Merger of the Constituent Corporations:

1. MHC II and MHA II were incorporated under the laws of the State of Arizona on June 1, 1995 and own no interest in land in the State of Maryland.

2. On the effective date of the Merger (as defined in paragraph 16 hereof and sometimes referred to herein as the "Effective Date"), the Merged Companies shall be merged with and into Surviving Company which shall be the surviving corporation.

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3. Surviving Company shall be governed by the laws of the State of Maryland and the registered office of Surviving Company in that state shall be CT, Inc.

4. Upon the Merger becoming effective, the separate existence of the Merged Companies shall cease, and Surviving Company shall succeed to and possess all the properties, rights, privileges, powers, franchises and immunities, of a public as well as of a private nature, and be subject to all the debts, liabilities, obligations, restrictions, disabilities and duties of the Merged Companies, all without further act or deed, as provided in the applicable provisions of the Maryland Corporations and Associations Code and the Arizona Business Corporation Act.

5. Except as amended by the provisions of paragraph 6 hereof, the Articles of Incorporation and bylaws of Surviving Company as in effect on the Effective Date shall be, from and after the Effective Date, the Articles of Incorporation and bylaws of the surviving corporation until they are thereafter amended.

6. The amendments to the Articles of Incorporation of Surviving Company which are to be effected as part of the Merger are to (i) delete Article IX of said charter in its entirety, (ii) renumber existing Article X of said charter to Article IX, (iii) delete Articles I, VI and VIII of said charter and to substitute the following new articles, (iv) delete subparagraph (a) to Article V of said charter and to substitute the following subparagraph (a) to Article V of said charter, and (v) add the following subparagraph (e) to Article V of said charter:

ARTICLE I

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NAME

The name of the corporation (which is hereinafter called the "Corporation") is: Monterey Homes Corporation.

ARTICLE V
CAPITAL STOCK

(a) The total number of shares of stock of all classes which the Corporation has authority to issue is sixteen million six hundred sixty-six thousand six hundred sixty-seven (16,666,667) shares of capital stock, par value three cents (\$.03) per share, amounting in aggregate par value to Five Hundred Thousand Dollars (\$500,000). All of the authorized shares are classified as Common Stock of the same class (the "Common Stock").

(e) Simultaneously with the Effective Date of this amendment and immediately after the Merger, the authorized shares of the Corporation's Common Stock, par value \$0.01 per share, and each share of such Common Stock issued and outstanding immediately prior to the Effective Date (the "Old Common Stock") shall automatically and without any action on the part of the holder thereof be split and changed into one-third (1/3) of a share (the "Stock Split") of the Corporation's Common Stock, par value \$0.03 per share (the "New Common Stock"), subject to the treatment of fractional share interests as described below (the

"Stock Split"). Each holder of a certificate or certificates which immediately prior to the Effective Date represented outstanding shares of Old Common Stock (the "Old Certificates", whether one or more) shall be entitled to receive upon

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surrender of such Old Certificates to the Corporation's Transfer Agent for cancellation, a certificate or certificates (the "New Certificates", whether one or more) representing the number of whole shares of the New Common Stock into which and for which the shares of the Old Common Stock formerly represented by such Old Certificates so surrendered, are split under the terms hereof. From and after the Effective Date, Old Certificates shall represent only the right to the number of shares of New Common Stock into which the Old Common Stock shall have been split and the right to receive New Certificates therefor pursuant to the provisions hereof. No certificates or scrip representing fractional share interests in New Common Stock will be issued, and no such fractional share interest will entitle the holder thereof to vote, or to any rights of a shareholder of the Corporation. All fractional shares for one-half share or more shall be increased to the next higher whole number of shares and all fractional shares of less than one-half share shall be decreased to the next lower whole number of shares, respectively. If more than one Old Certificate shall be surrendered at one time for the account of the same stockholder, the number of full shares of New Common Stock for which New Certificates shall be issued shall be computed on the basis of the aggregate number of shares represented by the Old Certificates so surrendered. In the event that the Corporation's Transfer Agent determines that a holder of Old Certificates has not tendered all his certificates for exchange, the Transfer Agent shall carry forward any fractional share until all certificates of that holder have been presented for exchange such that rounding for fractional shares to any one person shall not exceed one share. If any New Certificate is to be issued in a name other than that in which the Old Certificates surrendered for exchange are issued, the Old Certificates so

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surrendered shall be properly endorsed and otherwise in proper form for transfer, and the person or persons requesting such exchange shall affix any requisite stock transfer tax stamps to the Old Certificates surrendered, or provide funds for their purchase, or establish to the satisfaction of the Transfer Agent that such taxes are not payable. From and after the Effective Date the amount of capital represented by the shares of the New Common Stock into which and for which the shares of the Old Common Stock are split under the terms hereof shall be the same as the amount of capital represented by the shares of Old Common Stock so split, until thereafter reduced or increased in accordance with applicable law.

ARTICLE VI
DIRECTORS

The number of directors of the Corporation shall be as set forth in the Bylaws of the Corporation, but shall never be less than the minimum number permitted by the General Laws of the State of Maryland now or hereinafter in force. The directors shall be divided into two classes designated Class I and Class II. Each Class shall consist of one-half of the directors or as close as approximation thereto as possible. The Class I directors shall stand of election at the 1996 annual meeting of shareholders and shall be elected for a two-year term. The Class II directors shall stand for election at the 1996 annual meeting of shareholders and shall be elected for a one-year term. At each annual meeting of shareholders, commencing with the annual meeting to be held during fiscal 1997, each of the successors to the directors of the Class whose term shall have expired at such annual meeting shall be elected for a term running until the second annual meeting next succeeding

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his or her election and until his or her successor shall have been duly elected and qualified.

ARTICLE VIII
RESTRICTION ON TRANSFER OF SHARES

(a) In order to preserve the net operating loss carryovers, capital loss carryovers and built-in losses (the "Tax Benefits") to which the Corporation is entitled pursuant to the Internal Revenue Code of 1986, as amended, or any successor statute (collectively the "Code") and the regulations thereunder, the following restrictions shall apply until the earlier of (x) the business day following the fifth anniversary of the effectiveness of this Article VIII, (y) the repeal of Sections 382 and 383 of the Code (or successor provisions) if the Board of Directors determines that the restrictions are no longer necessary, or (z) the beginning of a taxable year of the Corporation to which the Board of Directors determines that no Tax Benefits may be carried forward, unless the Board of Directors shall fix an earlier or later date in accordance with paragraph (i) of this Article VIII (such date is sometimes referred to herein as the "Expiration Date"):

(i) No person (as herein defined), including the Corporation, shall engage in any Transfer (as herein defined) with any person to the extent that such Transfer, if effective, would cause the Ownership Interest Percentage (as herein defined) of any person or Public Group (as herein defined) to increase to

4.9 percent or above, or from 4.9 percent or above to a greater Ownership Interest Percentage, or would create a new Public Group; provided, however, that the foregoing restriction on such Transfers shall not be applicable to the Transfer of shares of Stock pursuant to (1) the exercise of any option that is issued by the Corporation and is outstanding on the effective date of

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the amendment to the Amended and Restated Articles of Incorporation of the Corporation which makes this Article VIII a part of such Amended and Restated Articles of Incorporation, (2) the exercise of those certain options initially covering 750,000 shares (prior to the Stock Split) of stock referred to in the Stock Option Agreement dated December 21, 1995 between the Corporation and Alan D. Hamberlin, (3) the issuance of the 800,000 shares (prior to the Stock Split) of Contingent Stock referred to in the Agreement and Plan of Reorganization dated as of September 13, 1996 (the "Agreement") or (4) the exercise of those certain options initially covering an aggregate of 1,000,000 shares (prior to the Stock Split) of stock referred to in those Stock Option Agreements dated December 31, 1996 between the Corporation and each of William W. Cleverly and Steven J. Hilton.

For purposes of this Article VIII:

(A) "person" refers to any individual, corporation, estate, trust, association, company, partnership, joint venture, or other entity or organization, including, without limitation, any "entity" within the meaning of Treasury Regulation Section 1.382-3(a);

(B) a person's "Ownership Interest Percentage" shall be the sum of such person's direct ownership interest in the Corporation as determined under Treasury Regulation Section 1.382-2T(f)(8) or any successor regulation and such person's indirect ownership interest in the Corporation as determined under Treasury Regulation Section 1.382-2T(f)(15) or any successor regulation, except that, for purposes of determining a person's direct ownership interest in the Corporation, any ownership interest in the Corporation described in Treasury Regulation Section 1.382-2T(f)(18)(iii)(A) or any successor regulation shall be

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treated as stock of the Corporation, and for purposes of determining a person's indirect ownership interest in the Corporation, Treasury Regulations Sections 1.382-2T(g)(2), 1.382-2T(h)(2)(i)(A), 1.382-2T(h)(2)(iii) and 1.382-2T(h)(6)(iii) or any successor regulations shall not apply and any Option Right to acquire Stock shall be considered exercised;

(C) "Transferee" means any person to whom Stock is Transferred;

(D) "Stock" shall mean shares of stock of the Corporation (other than stock described in Section 1504(a)(4) of the Code or any successor statute, or stock that is not described in Section 1504(a)(4) solely because it is entitled to vote as a result of dividend arrearages), any Option Rights to acquire Stock, and all other interests that would be treated as stock of the Corporation pursuant to Treasury Regulation Section 1.382-2T(f)(18) (or any successor regulation);

(E) "Public Group" shall mean a group of individuals, entities or other persons described in Treasury Regulation Section 1.382-2T(f)(13) or any successor regulation;

(F) "Option Right" shall mean any option, warrant, or other right to acquire, convert into or exchange or exercise for, or any similar interests in, shares of Stock;

(G) "Transfer" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event, that causes a person to acquire or increase an Ownership Interest Percentage in the Corporation, or any agreement to take any such actions or cause any such events, including (a) the granting or exercise of any Option Right with respect to Stock, (b) the disposition of any securities or rights convertible into or

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exchangeable or exercisable for Stock or any interest in Stock or any exercise of any such conversion or exchange or exercise right, and (c) transfers of interests in other entities that result in changes in direct or indirect ownership of Stock, in each case, whether voluntary or involuntary, of record, and by operation by law or otherwise;

(H) "Optionee" means any person holding an Option Right to acquire Stock.

(ii) Any Transfer that would otherwise be prohibited pursuant to the preceding subparagraph may nonetheless be permitted if information relating to a specific proposed transaction is presented to the Board of Directors and the Board (including a majority of the Independent Directors, as such term is

defined in the Agreement) determines in its discretion (x) based upon an opinion of legal counsel or independent public accountants selected by the Board, that such transaction will not jeopardize or create a material limitation on the Corporation's then current or future ability to utilize its Tax Benefits, taking into account both the proposed transaction and potential future transactions, or (y) that the overall economic benefits of such transaction to the Corporation outweigh the detriments of such transaction. Nothing in this subparagraph shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

(b) Unless approval of the Board of Directors is obtained as provided in subparagraph (a)(ii) of this Article VIII, any attempted Transfer that is prohibited pursuant to subparagraph (a)(i) of this Article VIII, to the extent that the amount of Stock subject to such prohibited Transfer exceeds the amount that could be Transferred without restriction under subparagraph (a) (i) of this

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Article VIII (such excess hereinafter referred to as the "Prohibited Interests"), shall be void ab initio and not effective to transfer ownership of the Prohibited Interests with respect to the purported acquiror thereof (the "Purported Acquiror"), who shall not be entitled to any rights as a shareholder of the Corporation with respect to the Prohibited Interests (including, without limitation, the right to vote or to receive dividends with respect thereto), or otherwise as the holder of the Prohibited Interests. All rights with respect to the Prohibited Interests shall remain the property of the person who initially purported to Transfer the Prohibited Interests to the Purported Acquiror (the "Initial Transferor") until such time as the Prohibited Interests are resold as set forth in subparagraph (b) (i) or subparagraph (b) (ii) of this Article VIII.

(i) Upon demand by the Corporation, the Purported Acquiror shall Transfer any certificate or other evidence of purported ownership of the Prohibited Interests within the Purported Acquiror's possession or control, along with any dividends or other distributions paid by the Corporation with respect to the Prohibited Interests that were received by the Purported Acquiror (the "Prohibited Distributions"), to an agent designated by the Corporation (the "Agent"). If the Purported Acquiror has sold the Prohibited Interests to an unrelated party in an arms-length transaction after purportedly acquiring them, the Purported Acquiror shall be deemed to have sold the Prohibited Interests as agent for the Initial Transferor, and in lieu of Transferring the Prohibited Interests to the Agent shall Transfer to the Agent the Prohibited Distributions and the proceeds of such sale (the "Resale Proceeds") except to the extent that the Agent grants written permission to the Purported Acquiror to retain a portion of the Resale Proceeds not exceeding the amount that would

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have been payable by the Agent to the Purported Acquiror pursuant to the following subparagraph (b)(ii) if the Prohibited Interests had been sold by the Agent rather than by the Purported Acquiror. Any purported Transfer of the Prohibited Interests by the Purported Acquiror other than a Transfer described in one of the two preceding sentences shall not be effective to Transfer any ownership of the Prohibited Interests.

(ii) The Agent shall sell in an arms-length transaction (on the New York Stock Exchange, if possible) any Prohibited Interests transferred to the Agent by the Purported Acquiror, and the proceeds of such sale (the "Sales Proceeds"), or the Resale Proceeds, if applicable, shall be allocated to the Purported Acquiror up to the following amount: (x) where applicable, the purported purchase price paid or value of consideration surrendered by the Purported Acquiror for the Prohibited Interests, and (y) where the purported Transfer of the Prohibited Interests to the Purported Acquiror was by gift, inheritance, or any similar purported Transfer, the fair market value of the Prohibited Interests at the time of such purported Transfer. Subject to the succeeding provisions of this subparagraph, any Resale Proceeds or Sales Proceeds in excess of the amount allocable to the Purported Acquiror pursuant to the preceding sentence, together with any Prohibited Distributions, shall be the property of the Initial Transferor. If the identity of the Initial Transferor cannot be determined by the Agent through inquiry made to the Purported Acquiror, the Agent shall publish appropriate notice (in The Wall Street Journal, if possible) for seven consecutive business days in an attempt to identify the Initial Transferor in order to transmit any Resale Proceeds or Sales Proceeds or Prohibited Distributions due to the Initial Transferor pursuant to this subparagraph. The

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Agent may also take, but is not required to take, other reasonable actions to attempt to identify the Initial Transferor. If after ninety (90) days following the final publication of such notice the Initial Transferor has not been identified, any amounts due to the Initial Transferor pursuant to this subparagraph may be paid over to a court or governmental agency, if applicable law permits, or otherwise shall be transferred to an entity designated by the Corporation that is described in Section 501(c)(3) of the Code. In no event shall any such amounts due to the Initial Transferor inure to the benefit of the Corporation or the Agent, but such amounts may be used to cover expenses (including but not limited to the expenses of publication) incurred by the Agent in attempting to identify the Initial Transferor.

(c) Within thirty (30) business days of learning of a purported Transfer of Prohibited Interests to a Purported Acquiror, the Corporation

through its Secretary shall demand that the Purported Acquiror surrender to the Agent the certificates representing the Prohibited Interests, or any Resale Proceeds, and any Prohibited Distributions, and if such surrender is not made by the Purported Acquiror within thirty (30) business days from the date of such demand the Corporation shall institute legal proceedings to compel such Transfer; provided, however, that nothing in this paragraph (c) shall preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand, and also provided that failure of the Corporation to act within the time periods set out in this paragraph (c) shall not constitute a waiver of any right of the Corporation under this Article VIII.

(d) Upon a determination by the Board of Directors that there has been or is threatened

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a purported Transfer of Prohibited Interests to a Purported Acquiror, the Board of Directors may take such action in addition to any action required by the preceding paragraph as it deems advisable to give effect to the provisions of this Article VIII, including, without limitation, refusing to give effect on the books of this Corporation to such purported Transfer or instituting proceedings to enjoin such purported Transfer.

(e) In the event of any Transfer which does not involve a Transfer of "securities" of the Corporation within the meaning of the Maryland Corporations and Associations Code, as amended ("Securities"), but which would cause a person or Public Group (the "Prohibited Party") to violate a restriction provided for in subparagraph (a) of this Article VIII, the application of subparagraphs (b) and (c) of this Article VIII shall be modified as described in this paragraph (e). In such case, the Prohibited Party and/or any person or Public Group whose ownership of the Corporation's Securities is attributed to the Prohibited Party pursuant to Section 382 of the Code and the Treasury Regulations thereunder (collectively, the "Prohibited Party Group") shall not be required to dispose of any interest which is not a Security, but shall be deemed to have disposed of, and shall be required to dispose of, sufficient Securities (which Securities shall be disposed of in the inverse order in which they were acquired by members of the Prohibited Party Group), to cause the Prohibited Party, following such disposition, not to be in violation of subparagraph (a) of this Article VIII. Such disposition shall be deemed to occur simultaneously with the Transfer giving rise to the application of this provision, and such amount of Securities which are deemed to be disposed of shall be considered Prohibited Interests and shall be disposed of through the Agent as provided in

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subparagraphs (b) and (c) of this Article VIII, except that the maximum aggregate amount payable to the Prohibited Party Group in connection with such sale shall be the fair market value of the Prohibited Interests at the time of the prohibited Transfer. All expenses incurred by the Agent in disposing of the Prohibited Interests shall be paid out of any amounts due the Prohibited Party Group.

(f) The Corporation may require as a condition to the registration of the transfer of any shares of its Stock that the proposed Transferee furnish to the Corporation all information reasonably requested by the Corporation with respect to all the proposed Transferee's direct or indirect ownership interests in, or options to acquire, Stock.

(g) All certificates evidencing ownership of shares of Stock that are subject to the restrictions on Transfer contained in this Article VIII shall bear a conspicuous legend referencing the restrictions set forth in this Article VIII.

(h) Any person who knowingly violates the restrictions on Transfer set forth in this Article VIII will be liable to the Corporation for any costs incurred by the Corporation as a result of such violation.

(i) Nothing contained in this Article VIII shall limit the authority of the Board of Directors to take such other action to the extent permitted by law as it deems necessary or advisable to protect the Corporation and the interests of the holders of its securities in preserving the Tax Benefits. Without limiting the generality of the foregoing, in the event of a change in law or Treasury Regulations making one or more of the following actions necessary or desirable, the Board

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of Directors may (i) accelerate or extend the Expiration Date, (ii) modify the Ownership Interest Percentage in the Corporation specified in the first sentence of subparagraph (a)(i), or (iii) modify the definitions of any terms set forth in this Article VIII; provided that the Board of Directors shall determine in writing that such acceleration, extension, change or modification is reasonably necessary or advisable to preserve the Tax Benefits under the Code and the regulations thereunder or that the continuation of these restrictions is no longer reasonably necessary for the preservation of the Tax Benefits, which determination shall be based upon an opinion of legal counsel or independent public accountants to the Corporation.

(j) The Corporation and the Board of Directors shall be fully protected in relying in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, or the chief

accounting officer of the Corporation or of the Corporation's legal counsel, independent auditors, transfer agent, investment bankers, and other employees and agents in making the determinations and findings contemplated by this Article VIII, and neither the Corporation nor the Board of Directors shall be responsible for any good faith errors made in connection therewith.

7. The authorized share structure of each of the Constituent Corporations is as follows:

	15		Surviving Company ----- (after giving effect to the Stock Split)
	MHC II -----	MHA II -----	
Total number of shares of all classes:	2,000,000	2,000,000	16,666,667
Number and par value of shares of each class:	2,000,000 shares of common stock, \$.00017 par value	2,000,000 shares of common stock, \$.0007 par value	16,666,667 shares of common stock, \$.03 par value
Number of shares without par value of each class:	-	-	-
Aggregate par value of all shares with par value:	\$340	\$1,400	\$500,000

8. The manner and basis of the conversion of the shares of the Merged Companies shall be in accordance with the Agreement, including, but not limited to, the following:

(a) Upon the Merger becoming effective, each share of common stock of each Merged Company (the "Merged Companies Common Stock") issued and outstanding on the Effective Date, by reason of the Merger and without any action on the part of the holders thereof, shall be converted into the Merger Consideration Per Share (as defined below), except that any shares of the Merged Companies Common Stock owned by Surviving Corporation or held in the treasury of any of the Merged Companies shall be cancelled and all rights in respect thereof shall cease to exist and no securities, cash or other property shall be issued in respect thereof. The term

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"Merger Consideration Per Share" shall mean for each Merged Company an amount equal to the Merger Consideration (as defined below) divided by the number of issued and outstanding shares of common stock of such Merged Company. The term "Merger Consideration" shall mean for each Merged Company (i) a number of shares of Old Common Stock of Surviving Company (the "Surviving Company Common Stock") equal to (x) the book value of such Merged Company as of the Effective Date multiplied by (y) a factor of 3.0 and divided by (z) the fully diluted book value per share of the Surviving Company Old Common Stock as of the Effective Date; provided, however, in the event the sum of the Merged Companies book values used in clause (x) above is more or less than \$2,500,000, the excess or shortfall shall be distributed or contributed in cash as set forth in Section 1.3(b) of the Agreement, and (ii) a pro rata portion of the Contingent Stock upon the terms and conditions as set forth in Section 1.3(f) of the Agreement. In addition, the Surviving Company shall pay to or receive from the shareholders of the Merged Companies in cash the Adjustment Amount as such term is defined in Section 1.3(b) of the Agreement.

(b) Certificates for fractional shares of Surviving Company Common Stock shall not be issued. The total number of shares of Surviving Company Common Stock that any person shall have a right to receive under these Articles of Merger will be rounded up to the nearest whole share of Surviving Company Common Stock.

(c) After the Effective Date, each holder other than Surviving Company of an outstanding certificate or certificates theretofore representing shares of the Merged Companies Common Stock (the "Merged Companies Stock Certificates"), upon surrender thereof to such bank,

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trust company or other person including Surviving Company as shall be designated by the Surviving Company (the "Exchange Agent"), shall be entitled to receive in exchange therefor a certificate or certificates representing the number of whole shares of Surviving Company Common Stock into which the shares of the Merged Companies Common Stock theretofore represented by such surrendered certificate or certificates shall have been converted. Until so surrendered, each Merged Companies Stock Certificate, shall be deemed for all purposes, other than the payment of dividends or other distributions, if any, in respect of Surviving Company Common Stock, to represent the appropriate number of whole shares of

Surviving Company Common Stock into which the shares of the Merged Companies Common Stock theretofore represented thereby shall have been converted. No dividend or other distribution, if any, payable to holders of shares of Surviving Company Common Stock shall be paid to the holders of certificates theretofore representing shares of the Merged Companies Common Stock; provided, however, that upon surrender and exchange of such the Merged Companies Stock Certificates there shall be paid to the record holders of the stock certificate or certificates, issued in exchange therefor, the amount, without interest thereon, of dividends and other distributions, if any, which theretofore but subsequent to the Effective Date have become payable with respect to the number of whole shares of Surviving Company Common Stock into which the shares of the Merged Companies Common Stock theretofore represented thereby shall have been converted.

(d) All issued shares of Surviving Company Common Stock, whether outstanding or reacquired immediately prior to the Effective Date, shall continue unchanged as shares of

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common stock of Surviving Company, except as otherwise changed pursuant to the Stock Split.

9. The terms and conditions of the Merger and the Agreement were advised, authorized, and approved by Surviving Company in the manner and by the vote required by its Articles of Incorporation and the provisions of the Maryland Corporations and Associations Code, and the said Merger and Agreement approved in the manner hereinafter set forth.

10. The Merger and the Agreement were duly advised and approved by the Board of Directors of Surviving Company in the following manner. Said Board of Surviving Company adopted a resolution declaring that the Merger of the Merged Companies into Surviving Company is advisable upon the terms and conditions set forth in the Agreement. Said resolution of the Board of Directors was adopted at a meeting duly held on September 5, 1996, at which a quorum was present, and at which the Board acted by at least a majority of its members present thereat.

11. The Board of Directors of Surviving Company directed the Secretary of the corporation to prepare a written notice of the time, place, and purpose of a meeting of shareholders of Surviving Company to take action upon the proposed Merger and the Agreement and to furnish a copy of said notice to all of the shareholders of Surviving Company entitled to vote upon the proposed Merger and the Agreement.

12. The Merger and the Agreement were duly approved by the shareholders of Surviving Company in the following manner. At a meeting of shareholders duly held on December 23, 1996, pursuant to notice duly given, the shareholders approved the same by the affirmative vote of at least a majority of all shares outstanding.

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13. The terms and conditions of the Merger herein set forth were duly advised, authorized, and approved, in respect of the Merged Companies, in the manner and by the vote required by the Articles of Incorporation of said corporations and by the laws of the State of Arizona, which is the state of incorporation of said corporations.

14. The Merger and the Agreement were duly advised and unanimously approved by the respective Board of Directors of each of the Merged Companies at a meeting held pursuant to notice on July 31, 1996.

15. The Merger and the Agreement were duly approved by the shareholders of the Merged Companies by unanimous written consent dated September 9, 1996.

16. Subject to and in accordance with the laws of the States of Maryland and Arizona, the conditions precedent contained in the Agreement and the other obligations of the parties set forth in the Agreement, the effective date of the Merger (the "Effective Date") for purposes of state law shall be such date and time the Articles of Merger are filed with the Secretary of State of the State of Maryland and the Corporation Commission of the State of Arizona.

17. Notwithstanding anything herein to the contrary, the Merger may be terminated at any time on or before the Effective Date as provided in the Agreement. In the event of the termination of the Merger, these Articles of Merger shall become void and of no effect without any liability to the Constituent Corporations or to the directors, officers, representatives or agents of any of them except for the obligations the Constituent Corporations to pay certain fees and expenses as provided for in the Agreement.

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18. These Articles of Merger may be modified at any time in any respect by the mutual consent of the Constituent Corporations, notwithstanding prior approval by the respective shareholders. Any such modification may be approved for any such corporation by its Board of Directors, without further shareholder approval, except that the value and method of calculating the Merger Consideration to be issued in exchange for the shares of the Merged Companies Common Stock may not be increased or materially altered without the consent of the shareholders of Surviving Company and may not be decreased or materially altered without the consent of the shareholders of the Merged Companies given,

in each case, by the same vote as is required under applicable state law for approval of the Merger; provided, however, no consent of the shareholders of the Constituent Corporations shall be required to substitute cash in place of Surviving Company Common Stock.

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IN WITNESS WHEREOF, each of the Constituent Corporations has caused these Articles of Merger to be executed under the penalty of perjury on the 31st day of December, 1996.

HOMEFLEX MORTGAGE INVESTMENTS
CORPORATION

By: /s/ Alan D. Hamberlin
Name: Alan D. Hamberlin
Title: Chairman and Chief Executive Officer

Attested to:

By: /s/ Jay R. Hoffman
Name: Jay R. Hoffman
Title: President, Secretary and Treasurer

MONTEREY HOMES CONSTRUCTION II, INC.

By: /s/ William W. Cleverly
Name: William W. Cleverly
Title: President

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Attested to:

By: /s/ Steven J. Hilton
Name: Steven J. Hilton
Title: Secretary and Treasurer
MONTEREY HOMES ARIZONA II, INC.

By: /s/ Larry W. Seay
Name: Larry W. Seay
Title: Chief Financial Officer

Attested to:

By: /s/ Steven J. Hilton
Name: Steven J. Hilton
Title: Secretary and Treasurer

AMENDMENT TO THE BYLAWS

OF

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION

This Amendment (this "Amendment") to the Homeplex Mortgage Investments Corporation (the "Company") Bylaws (the "Bylaws"), is made as of December 16, 1996.

WHEREAS, the Board of Directors of the Company believes that this Amendment is in the best interest of the Company and the Board or Directors of the Company has authorized and duly adopted this Amendment in accordance with the Bylaws.

NOW, THEREFORE, the Bylaws are hereby amended as follows:

1. The first sentence of Article II, Section 2 of the Bylaws is hereby amended to read in its entirety as follows:

"The number of directors of the Corporation shall be fixed at five (5), and the number of directors may not be changed except with the approval of the shareholders."

2. Article XII is hereby amended to add a new section as the last section of Article XII, as follows:

"Without prior approval of the shareholders, the board of directors will not take any action or omit to take any action which would cause or result in failure of the corporation to qualify as a real estate investment trust within the meaning of the Internal Revenue Code of 1986, as amended (a "REIT"). The board of directors shall cause the corporation to exercise all of its rights to prevent transfer of shares, or to redeem shares, to cause the corporation not to fail to qualify as a REIT. This Section may not be amended without the approval of the shareholders in accordance with Article XII."

<TABLE>

<S>

<C>

Temporary Certificate-Exchangeable for Definitive Engraved Certificate When Ready for Delivery

NUMBER
SHARES
MH

MONTEREY HOMES
CORPORATION

INCORPORATED UNDER THE LAWS OF THE STATE OF MARYLAND

THIS CERTIFICATE IS TRANSFERABLE IN THE CITIES
IMPORTANT NOTICE ON
OF SAN FRANCISCO, CA RIDGEFIELD PARK, NJ
OTHER INFORMATION
OR NEW YORK, NY

SEE REVERSE FOR
TRANSFER RESTRICTIONS AND
CUSIP 612502

10 4

This Certifies that

is the record holder of

FULLY PAID AND NON ASSESSABLE SHARES OF COMMON STOCK, \$.01 PAR VALUE, OF

----- MONTEREY HOMES CORPORATION -----

(The "Corporation") transferable on the books of the Corporation by the holder hereof in person or by its duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the charter of the Corporation (the "Charter") and the Bylaws of the Corporation and any amendments thereto. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed on its behalf by its duly authorized officers.

Dated:

SECRETARY
CHAIRMAN

MONTEREY HOMES CORPORATION
CORPORATE SEAL 1988 MARYLAND

COUNTERSIGNED AND REGISTERED:
CHASEMELLON SHAREHOLDER

SERVICES, L.L.C.
AGENT AND REGISTRAR

TRANSFER

BY

AUTHORIZED SIGNATURE
</TABLE>

The shares represented by this certificate are subject to restrictions on Transfer for the purpose of the Corporation's maintenance of the net operating loss carry-overs, capital loss carry-overs and built-in losses to which the Corporation is entitled pursuant to the Internal Revenue Code of 1986, as amended. Subject to certain further restrictions and except as expressly provided in the Corporation's Charter, no person may engage in any Transfer that is with any other person if such Transfer would cause the Ownership Interest Percentage of any person or Public Group to increase to 4.9 percent or above, or from 4.9 percent or above to a greater Ownership Interest Percentage, or would create a new Public Group. Any attempted Transfer that is prohibited by the Corporation's Charter shall be void ab initio, and all right with respect to Prohibited Interest shall remain the property of the person who initially purported to Transfer the Prohibited Interests until such time as the Prohibited Interests are resold as provided in the Corporation's Charter. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Common Stock on request and without charge. Requests for such a copy

may be directed to the Secretary of the Corporation at the Corporation's principal executive office.

The Corporation is authorized to issue two classes of capital stock which are designed as Common Stock and Preferred Shares. The Board of Directors is authorized to determine the preferences, limitations, and relative rights of the Preferred Shares before the issuance of any Preferred Shares. The Corporation will furnish, without charge, to any shareholder making a written request therefor, a copy of the Corporation's Charter and a written statement of the designations, relative rights, preferences and limitations applicable to each such class of stock. Requests for such written statement may be directed to the Secretary of the Corporation, at the Corporation's principal executive office.

The following abbreviations, when used in the Inscription on the face of the certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

<TABLE>		<C>	
<CAPTION>			
<S>	<C>	UNIF GIFT MIN ACT -	_____Custodian_____
TEN COM - as tenants in common			(Cust) _____(Miner)
TEN ANT - as tenants by the entitles			Under Uniform Gifts to Minors
JT TEN - as joint tenants with right of			Act _____
survivorship and not as tenants			(State)
		UNIF TRF MIN ACT-	_____Custodian (until age _____)
			(Cust) _____
			_____under Uniform Transfers
			(Minor)
		To Miners Act _____	
			(State)

</TABLE>
Additional abbreviations may also be used through not in the above list

FOR VALUE RECEIVED, _____ hereby sell, assign, transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

Shares
of the common stock represented by the within Certificate, and do hereby
irrevocably constitute and appoint

Attorney
to transfer the said stock on the books of the within named Corporation with
full power of substitution in the premises.

Dated _____

X _____
X _____
NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST
CORRESPOND WITH THE NAME(S) AS WRITTEN
UPON THE FACE OF THE CERTIFICATE IN
EVERY PARTICULAR, WITHOUT ALTERATION OR
ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

By _____
THE SIGNATURE(S) SHOULD BE AN ELIGIBLE GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP
IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE
1745-45.

=====

CREDIT AGREEMENT

among

MONTEREY HOMES CONSTRUCTION II, INC.,
an Arizona corporation

and

MONTEREY HOMES ARIZONA II, INC.,
an Arizona corporation,
as Borrowers,

and

NORWEST BANK ARIZONA, NATIONAL ASSOCIATION,
a national banking association,

and

BANK ONE, ARIZONA, NA,
a national banking association,
as Lenders

and

NORWEST BANK ARIZONA, NATIONAL ASSOCIATION,
a national banking association,
as Agent

December 20, 1996

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT (the "Agreement") is made as of the 20th day of December, 1996 by and among Monterey Homes Construction II, Inc., an Arizona corporation ("MHC II") and Monterey Homes Arizona II, Inc., an Arizona corporation ("MHA II") (MHC II and MHA II are sometimes hereinafter referred to collectively as the "Borrower"), Norwest Bank Arizona, National Association, a national banking association, and Bank One, Arizona, NA, a national banking association (collectively, the "Lenders") and Norwest Bank Arizona, National Association, a national banking association, as Agent (the "Agent").

R E C I T A L S :

WHEREAS, Borrower desires to obtain from Lenders (a) a \$20,000,000 master construction line of credit to finance vertical construction in the Subdivisions, (b) a \$20,000,000 guidance line of credit to finance acquisition and development in existing Subdivisions and to finance new acquisition and development on a project specific basis as approved by Lenders from time to time, and (c) a \$6,052,500 term loan to refinance an existing loan made by Norwest which was used by Borrower to fund a portion of the distribution of retained earnings of Borrower to its shareholders prior to the Merger;

WHEREAS, Borrower intends to merge with and into Public Company, which will be the surviving company and which will thereafter change its name to Monterey Homes Corporation;

WHEREAS, immediately prior to the Merger, Borrower intends to form the Drop-Down Subsidiaries and transfer all of their assets and liabilities, including, without limitation, Borrower's Real Estate and all of Borrower's right, title, interest, obligations and liabilities under this Agreement and the Loan Documents, to the Drop-Down Subsidiaries;

WHEREAS, subject to the terms and conditions of this Agreement, the Drop-Down Subsidiaries will assume all of the Borrower's Obligations under this Agreement and the Loan Documents, and Borrower will guarantee the payment and performance of the Obligations;

WHEREAS, after the effective date of the Merger, Public Company intends to form the New Business Subsidiaries which, subject to the terms and conditions of this Agreement, will assume the Obligations and become a "Borrower" hereunder;

WHEREAS, Lenders desire to proceed with the making of the Loans on the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. CERTAIN DEFINED TERMS

1.1. Certain Defined Terms. As used herein, each of the following terms shall have the meaning ascribed to it below, which meaning shall be applicable to both the singular and plural forms of the terms defined:

"Agreed Cost" means the agreed-upon cost of each Residential Unit Base Plan, including Approved Upgrades, as shown on Exhibit "A" attached hereto and incorporated herein by this reference, and as revised from time to time by Agent in its sole and absolute discretion based upon Borrower's updated cost estimates.

"Adjusted Tangible Net Worth" means, as of any date of determination, the amount of consolidated Owners' Equity of the Obligated Group as shown on its consolidated balance sheet, plus Subordinated Debt, minus the Net Book Value (after deducting reserves applicable thereto) of all assets classified as intangible assets under GAAP, including, without limitation, goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, permits, covenants not to compete, and rights related thereto, minus any stock or other securities or evidences of indebtedness of any other Person, any loans or advances to any other Person, or any investment or interest whatsoever in any other Person, including specifically, but without limitation, any partnership or joint venture, except (a) investments in Cash Equivalents and (b) investments in, or receivables from, joint ventures and partnerships, or seller-carryback financing secured by a First Mortgage in favor of Borrower, but which, in the aggregate with respect to clause (b), do not exceed ten percent (10%) of the Obligated Group's Tangible Assets.

"Advance" means a borrowing hereunder consisting of the aggregate amount of the several Loans, made by the Lenders to the Borrower, of the same Type.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means Norwest Bank Arizona, National Association, in its capacity as agent for the Lenders, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to the Co-Lender Agreement.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders, as reduced from time to time pursuant to the terms hereof.

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"Agreement" means this Credit Agreement, as it may be amended, modified, supplemented, restated or replaced from time to time.

"Applicable Margin" means:

(a) prior to the Merger:

(i) with respect to Floating Interest Rate Advances under the Construction Line, 50 basis points;

(ii) with respect to a Eurodollar Advances under the Construction Line, 275 basis points;

(iii) with respect to Floating Interest Rate Advances under the Guidance Line, 50 basis points;

(iv) with respect to a Eurodollar Advances under the Guidance Line, 300 basis points; and

(v) with respect to Floating Interest Rate Advances under the Term Loan, 50 basis points;

(b) on or after the Merger:

(i) with respect to Floating Interest Rate Advances under the Construction Line, 25 basis points;

(ii) with respect to a Eurodollar Advances under the Construction Line, 250 basis points;

(iii) with respect to Floating Interest Rate Advances under the Guidance Line, 50 basis points;

(iv) with respect to a Eurodollar Advances under the Guidance Line, 300 basis points; and

(v) with respect to Floating Interest Rate Advances under the Term Loan, 25 basis points.

"Appraisal" means a written appraisal of the Real Estate or one or more Lots, Models or Base Plans prepared by a qualified appraiser who is a member of the American Institute of Real Estate Appraisers or of another nationally recognized group of professional appraisers, selected by the Agent, setting

forth an opinion as to the Appraised Value.

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"Appraised Value" means, with respect to an interest in Real Estate as of a given date, the then current fair market value of that interest, as determined by a qualified appraiser who is a member of the American Institute of Real Estate Appraisers or of another nationally recognized group of professional appraisers, selected by the Agent, based upon generally accepted methods of appraising and in conformity with the requirements of any applicable law, rule, regulation, policy, guideline or directive (whether or not having the force of law) of any Governmental Authority, or any interpretation thereof, including, without limitation, the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, reformed or otherwise modified from time to time, and any rules promulgated to implement such provisions.

"Approved Upgrade" means the agreed value of the flooring and in-ground swimming pools for each Project, as more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference, and, with respect to new Projects, as agreed upon in writing by Borrower and Agent, and any other upgrades to the Base Plans approved in writing by Agent.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Assignment and Assumption Agreement" means that certain assignment and assumption agreement among the Borrower and the Drop-Down Subsidiaries, with the consent and release of MHC II and MHA II (and the affirmative acknowledgment that the Public Company is not a "Borrower" or primary obligor under this Agreement) by Lenders, in form and substance satisfactory to Lenders, pursuant to which the Borrower assigns, and the Drop-Down Subsidiaries assume, all of the Borrower's right, title, interest, obligations and Liabilities under the Loan Documents.

"Audited Financial Statements" is defined in Section 11.3(a).

"Authorized Officer" means any of the officers of any Borrower, as more particularly described on Exhibit "B" attached hereto and incorporated herein by this reference, or any other Person designated by the Borrower in writing (together with an incumbency certificate and specimen signature of such Authorized Officer) to act as an Authorized Officer hereunder, acting singly.

"Average Lost Monthly Interest Income" means the amount determined by dividing (i) the product of the Average Principal and the Lost Rate, by (ii) 12, where:

"Average Principal" means the amount equal to either (i) one-half the sum of (A) the amount of principal being prepaid and (B) the amount of principal that is scheduled to be due

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on the last Business Day of the Interest Period for such Eurodollar Loan ("Balloon Amount"), or (ii) the amount of principal being prepaid, if such amount is less than the Balloon Amount; and

"Lost Rate" means the rate per annum equal to the percentage, if any, by which (i) the yield to maturity of United States Treasury debt obligations having a maturity date nearest to the last Business Day of the Interest Period for such Eurodollar Loan ("Treasury Obligations") determined on the first day of the Interest Period exceeds (ii) the yield to maturity of Treasury Obligations determined on the date of prepayment.

"Base Lot" means the standard Lot for each Project, without any premium based upon location, view or other special characteristics of the particular Lot.

"Base Plan" means the standard floor plans with standard features of each type of Residential Unit, including Approved Upgrades, plus the Base Lot, as more particularly described on Exhibit "A" attached hereto and incorporated herein by this reference.

"Base Plan Budget" means, with respect to each type of Residential Unit, the sum of (a) the cost of all on-site labor and materials to be incorporated into such Residential Unit, (b) the engineering, architectural, permitting, land use planning and other approved "soft costs" related to the Residential Unit, (c) the Lot Release Price or Lot Option Price, as applicable, (d) an overhead factor equal to four percent (4%) of the construction costs referred to in clause (a) above, and (e) an interest reserve equal to two percent (2%) of the construction costs referred to in clause (a) above, as more particularly described on Exhibit "C" attached hereto and incorporated herein by this reference.

"BOAZ" means Bank One, Arizona, NA, and its successors and permitted assigns, in its capacity as Lender.

"Borrower" means:

(i) prior to the formation of the Drop-Down Subsidiaries and the Merger, MHC II and MHA II;

(ii) after the formation of the Drop-Down Subsidiaries and the assignment and assumption by the Drop-Down Subsidiaries of the Loans, this Agreement and the Loan Documents, the Drop-Down Subsidiaries; and

(iii) after the formation of the New Business Subsidiaries and the assumption by the New Business Subsidiaries of the Loans, this Agreement and the Loan Documents, the Drop-Down Subsidiaries and the New Business Subsidiaries.

Whenever used in this Agreement, the term "Borrower" refers to and means each of the entities comprising the Borrower, individually, and all of such entities, collectively. All of the

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entities comprising the Borrower shall be jointly and severally liable as Borrower under this Agreement, the Notes, and all other Loan Documents.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 8.2.

"Bulk Land Price" means the lesser of (a) seventy-five percent (75%) of the aggregate as-developed bulk wholesale Appraised Value of all Real Estate purchased and which may be developed under a single Guidance Loan, including, without limitation, unsubdivided Real Estate and subdivided Real Estate, or (b) eighty percent (80%) of the Bulk Land Budget in connection with a single Guidance Loan.

"Bulk Land Budget" means, with respect to a single Guidance Loan, the budgeted cost to acquire and develop the Real Estate and install any off-site and on-site infrastructure improvements, as approved by Lenders in their sole and absolute discretion. The Bulk Land Budget may be allocated between Real Estate intended to be subdivided by Borrower and Real Estate not intended to be subdivided by Borrower.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks are open for business in Phoenix, Arizona and New York, New York and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks are open for business in Phoenix, Arizona.

"Calendar Quarter" means the three-month periods from January 1 through March 31; April 1 through June 30; July 1 through September 30; and October 1 through December 31.

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

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

"Cash Equivalents" means investments (directly or through a money market fund) in (a) certificates of deposit and other interest bearing deposits or accounts with United States commercial banks (including all affiliates and subsidiaries) having a combined capital and surplus of at least \$300,000,000, which certificates, deposits, and accounts mature within one year from the date of investment and are fully insured as to principal by the Federal Deposit Insurance Corporation or any successor agency, (b) obligations issued or unconditionally guaranteed by the United States government, or issued by an agency thereof and backed by the

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full faith and credit of the United States government, which obligations mature within one year from the date of investment, (c) direct obligations issued by any state or political subdivision of the United States, which mature within one year from the date of investment and have the highest rating obtainable from Standard & Poor's Corporation or Moody's Investors Service, Inc. on the date of investment, (d) commercial paper which has one of the two highest ratings obtainable from Standard & Poor's Corporation or by Moody's Investors Service, Inc., (e) funds held in a brokered money market account with a net worth in excess of \$500,000,000 and approved for investment by insurance companies by the National Association of Insurance Commissioners, (f) the amount available under the Construction Line for Advances to Borrower pursuant to the most recent Construction Status Report and Collateral Base Certificate approved by Agent, but not yet drawn by Borrower, and (g) collateral mortgage obligations classified as short-term investments by Borrower in accordance with GAAP.

"Change in Law" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law)

after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any corporation controlling any Lender.

"Check Release Methodology" means a methodology allowing for loan availability only when a check to a third party has been released, or will be released within one (1) Business Day of the funding of an Advance, to pay for the construction item (work and/or materials) which is completed and where reasonable evidence of such check payment to a third party is provided to Agent.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Co-Lender Agreement" means that certain Co-Lender Agreement of even date herewith among Lenders and Agent, as it may be amended, modified, supplemented, restated or replaced from time to time.

"Collateral" means, at any time, any assets owned by the Borrower or any Guarantor that then are subject to a Mortgage or other security instrument in favor of the Agent as security for all or any part of the Obligations.

"Collateral Base" is defined in Section 5.2.

"Collateral Base Certificate" means a certificate in substantially the form attached hereto as Exhibit "D" and incorporated herein by this reference.

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"Commitment" means, for each of the Lenders, the obligation of such Lender to make Loans not exceeding the amounts set forth on Schedule "1" attached hereto and incorporated herein by this reference, as such amounts may be modified from time to time pursuant to the terms hereof.

"Completion Percentage" means the percentage (in 5% increments rounded down to the nearest multiple of 5 and expressed as a decimal fraction) of construction completed as of the date of the Construction Status Report, based upon the actual field percentage of work completed for such Residential Unit, as determined by the Agent's inspection of the Residential Unit; provided, however, from and after written request by Agent to Borrower, Borrower shall provide Agent information reasonably satisfactory to Agent to determine the ratio of costs already incurred by Borrower for material and labor incorporated into the applicable Residential Unit to Borrower's total anticipated cost (reasonably estimated in good faith) to construct such Residential Unit, as said total anticipated costs are promptly adjusted from time to time to reflect changes in anticipated costs, and the Completion Percentage shall be based upon the lesser of (a) the actual field percentage of work completed for such Residential Unit, as determined by the Agent's inspection of the Residential Unit; and (b) the ratio of costs already incurred by Borrower for material and labor incorporated into the applicable Residential Unit to Borrower's total anticipated cost (reasonably estimated in good faith) to construct such Residential Unit, as said total anticipated costs are promptly adjusted from time to time to reflect changes in anticipated costs.

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

"Construction Line Commitment" means \$20,000,000.

"Construction Line" is defined in Section 5.1.

"Construction Line Maturity Date" is defined in Section 5.1(c).

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract and reimbursement agreements with financial institutions (including Lenders) relating to letters of credit issued by such financial institutions for the account of Borrower.

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"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Corporate Base Rate" means the rate of interest publicly announced from time to time by Agent as its "base rate" or, if Agent ceases to announce, or does not announce, a rate so designated, any similar successor rate designated by the Agent. Each change in the Corporate Base Rate shall be effective, without notice to Borrower, on the effective date of each such change

by Agent. Borrower acknowledges that Agent may, from time to time, extend credit to other Persons at rates of interest varying from and having no relationship to the Corporate Base Rate. A certificate signed by any Vice President of Agent shall be conclusive evidence of the Corporate Base Rate at any given time.

"Default Rate" means a rate per annum equal to the Floating Interest Rate plus 500 basis points, but in no event greater than the maximum contracted rate of interest available under applicable law. In the case of a Eurodollar Advance the maturity of which is accelerated, such Eurodollar Advance shall bear interest at the Eurodollar Rate plus 500 basis points until the next Eurodollar Advance Date, and thereafter at the Floating Interest Rate plus 500 basis points, but in no event greater than the maximum contracted rate of interest available under applicable law.

"Discount Rate" means the rate per annum equal to the yield to maturity of Treasury Obligations determined on the date of prepayment.

"Dollars" and the sign "\$" each means lawful money of the United States of America.

"Drop-Down Subsidiaries" means Monterey Homes Construction I, Inc., an Arizona corporation to be formed, and Monterey Homes Arizona I, Inc., an Arizona corporation to be formed.

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

"Effective Date" means December 20, 1996.

"Environmental Indemnity Agreement" means that certain Environmental Certification and Unsecured Environmental Indemnity Agreement of even date herewith from Borrower and Individual Guarantors in favor of Agent, as it may be amended, modified, supplemented, restated

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or replaced from time to time, and any other Environmental Certification and Unsecured Environmental Indemnity Agreement required to be provided in accordance with this Agreement.

"Environmental Laws" means any federal, state or local statute, ordinance, or regulation pertaining to health, industrial hygiene, or the environment, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. ss 9601, et seq. ("CERCLA"); the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss 6901, et seq. ("RCRA"); and the Arizona Environmental Quality Act, A.R.S. ss 49-201, et seq., the Arizona Hazardous Waste Management Act, as amended, A.R.S. ss 49-921, et seq., and all rules adopted and guidelines promulgated pursuant to the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Advance" means an Advance which bears interest at a Eurodollar Rate.

"Eurodollar Advance Date" means the fifteenth day of any month or, if the fifteenth day of any month is not a Business Day, the next succeeding Business Day.

"Eurodollar Base Rate" means the three month London interbank offered rate for U.S. dollar deposits (expressed as an annual rate) as of 11:00 a.m. (London time) two (2) Business Days prior to the Eurodollar Advance Date (rounded up to the nearest 1/16 of 1%, as quoted on Telerate page 3750 or on such replacement system as is then customarily used to quote the London interbank offered rate. If, on the date of determination, there is no quoted London interbank offered rate for U.S. dollar deposits, the Eurodollar Base Rate shall be determined as of the first calendar day thereafter that London interbank offered rates for U.S. dollar deposits are quoted. If two or more such rates appear on Telerate page 3750 or associated pages, the rate shall be the arithmetic mean of such offered rates (rounded up to the nearest 1/16 of 1%).

"Eurodollar Interest Period" means, with respect to a Eurodollar Advance, a period of three months, commencing on any Eurodollar Advance Date selected by the Borrower pursuant to this Agreement and ending on (but excluding) the Eurodollar Advance Date of the month three months thereafter, but in no event ending after the Maturity Date of the applicable Loan.

"Eurodollar Loan" means a Loan which bears interest at a Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Advance, the sum of (i) the quotient of (a) the Eurodollar Base Rate divided by (b) one minus the

Reserve Requirement (expressed as a decimal), plus (ii) the Applicable Margin.

"Event" means an event, circumstance, condition or state of facts.

"Event of Default" is defined in Section 14.1 hereof.

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"Federal Funds Effective Rate" means for any day an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Phoenix time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"First Mortgage" means a Mortgage in favor of Agent that (i) creates a lien that covers any Real Estate and all developments thereto and/or improvements thereon, whether existing at the time the lien is created or thereafter made, (ii) takes priority or precedence over all other liens and encumbrances to which the Real Estate is subject, except Permitted Exceptions, and (iii) must be satisfied before all other liens and encumbrances to which the Real Estate is subject are entitled to participate in the proceeds of any sale or other disposition of such Real Estate, except Permitted Exceptions.

"Floating Interest Rate" means, with respect to a Floating Interest Rate Advance, a rate per annum equal to the sum of (i) the Corporate Base Rate, plus (ii) the Applicable Margin.

"Floating Interest Rate Advance" means an Advance which bears interest at the Floating Interest Rate.

"Floating Interest Rate Loan" means a Loan which bears interest at the Floating Interest Rate.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied in a manner consistent with those used in preparing the financial statements referred to in Section 11.3.

"Governmental Authority" means any body politic, including without limitation the United States of America, the State of Arizona, and any other state, county, parish, city, town, township or municipality, and any subpart thereof or any Person(s) deriving their authority from any such body politic, including, without limitation, any department, agency, commission, board, division, bureau or office, or any subpart thereof, of any body politic.

"Guarantor" or "Guarantors" means, prior to the Merger, Individual Guarantors, and after the Merger, Public Company and all of its Subsidiaries that are not Borrower.

"Guaranty" or "Guaranties" means, individually and collectively, subject to the terms and conditions of this Agreement, from the Effective Date to the consummation of the Merger, the joint and several continuing guaranties of the Obligations by Individual Guarantors, and subject

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to the terms and conditions of this Agreement, after the Merger, the joint and several continuing guaranties of Public Company and all of its Subsidiaries and Affiliate entities that are not the Borrower.

"Guidance Line Commitment" means \$20,000,000.

"Guidance Line" is defined in Section 7.1.

"Guidance Loan" is defined in Section 7.1(b).

"Guidance Line Maturity Date" is defined in Section 7.1(c).

"Guidance Note" means, individually and collectively, the multiple advance promissory notes from Borrower to Lenders in the maximum amount of each Lender's Pro Rata Share of a Guidance Loan available for acquisition and on-site and off-site infrastructure development of Real Estate for a Project, and any amendments, modifications or supplements thereto and any note or notes taken wholly or partially in renewal or extension thereof or substitution or replacement therefor.

"Hazardous Substances" means any toxic or hazardous wastes, pollutants or substances, including, without limitation, asbestos, PCBs, petroleum products and by-products, substances defined or listed as "hazardous substances" or "toxic substances" or similarly identified in or pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss 9061 et seq., hazardous materials identified in or pursuant to the Hazardous Materials Transportation Act 49 U.S.C. ss 1802 et seq., hazardous wastes identified in or pursuant to The Resource Conservation and Recovery Act, 42 U.S.C. ss 6901 et seq., any chemical substance or mixture regulated under the

Toxic Substance Control Act of 1976, as amended, 15 U.S.C. ss 2601 et seq., any "toxic pollutant" under the Clean Water Act, 33 U.S.C. ss 466 et seq., as amended, any hazardous air pollutant under the Clean Air Act, 42 U.S.C. ss 7401 et seq., and any hazardous or toxic substance or pollutant regulated under any other applicable federal, state or local Environmental Laws.

"Improvements" means any equipment, structures, improvements, fixtures and buildings attached or affixed, or intended to be attached or affixed, to the Real Estate.

"Indebtedness" of a Person means such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) Capitalized Lease Obligations and (vi) liabilities and obligations under any sale/leaseback and receivable

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sales transactions. With respect to the Borrower, Indebtedness includes, without limitation, all Obligations.

"Individual Guarantors" means William W. Cleverly, a married man dealing with his sole and separate property, and Steven J. Hilton and Benee Hilton, husband and wife.

"Investment" of a Person means any loan, advance extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Lender" or "Lenders" mean, individually or in the aggregate, Norwest Bank Arizona, National Association, and Bank One, Arizona, NA, and their respective successors and permitted assigns.

"Letter of Credit" means a letter of credit issued by Norwest at the request of Borrower for the benefit of a Governmental Authority, in form and content satisfactory to Norwest, for the purposes of providing credit enhancement to assure installation of infrastructure improvements intended to be funded with proceeds from a Guidance Loan.

"Liabilities" of a Person means all items included in the liability section of a balance sheet of that Person prepared in accordance with GAAP applied as of the date of calculation. Without limiting the generality of the foregoing, the term "Liabilities" shall include: (i) all Indebtedness secured by any Mortgage, lien, pledge, security interest, charge or encumbrance upon or in property owned by that Person, to the extent attributable to that Person's interest in the property, even though that Person has not assumed or become liable for the payment of the Indebtedness; (ii) contractual obligations for payment of marketing, advertising and promotion and deferred lot premiums, and (iii) the aggregate amount of the reserves established on the books of that Person in respect of contingent Liabilities and other contingencies (except reserves which are properly treated as deductions from assets) and in any event shall include with respect to the Borrower the amount of all outstanding Loans.

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

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"Loan" or "Loans" means, individually or in the aggregate, the Construction Line, any Guidance Loan and the Term Loan.

"Loan Documents" means this Agreement, the Notes, any Mortgages, the Guaranties, the Securities Pledge Agreement, the Environmental Indemnity Agreement and any and all other instruments or documents now or hereafter delivered by the Borrower, the Guarantors, the Drop-Down Subsidiaries, the New Business Subsidiaries, Public Company or any of their Subsidiaries pursuant hereto, as such documents may be amended, modified, supplemented, restated or replaced from time to time.

"Lot" means a subdivided parcel of Real Estate owned by Borrower in any Subdivision, held for development by Borrower and encumbered by a First Mortgage.

"Lot Release Price" means the agreed-upon release price for each Lot

under each Guidance Loan. The Lot Release Price for existing Projects is shown on each Guidance Loan Addendum and incorporated herein by this reference.

"Lot Option Price" means ninety-five percent (95%) of the contracted for Lot release price provided in the applicable Option Contract, excluding any lot premium. The Lot Option Price for existing Projects is attached hereto as Exhibit "C" and incorporated herein by this reference.

"Material Adverse Effect" means a material adverse effect on (i) the business, properties, assets, condition (financial or otherwise), results of operations, or prospects of (a) the Obligated Group, (b) the Borrower, taken as a whole, or (c) any entity comprising the Borrower, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Maturity Date" means, with respect to each Note, the date upon which the outstanding principal amount of such Note, all accrued but unpaid interest thereof, and all other Obligations become due and payable, whether as a result of the occurrence of the stated maturity date or the acceleration of maturity pursuant to the terms of any of the Loan Documents.

"Merger" means the merger of Borrowers with and into Public Company, which will be the surviving corporation of the merger, which is intended to occur on or about December 31, 1996.

"Model Home" means a Residential Unit, completed or under construction, designated by Borrower as a model home.

"Monthly Payment Date" means the tenth day of each calendar month.

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"Mortgage" means any mortgage, deed of trust or other security deed in Real Estate, or in rights or interests, including leasehold interests, in Real Estate.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Net Book Value" means, with respect to an asset owned by a Borrower, the gross investment of that Borrower in the asset, less all reserves (including loss reserves and reserves for depreciation) attributable to that asset, all determined in accordance with GAAP.

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

"Net Proceeds" means, in connection with the sale of any Lot or Residential Unit by the Borrower, the gross sales price less (a) all bona fide prorations and adjustments to the sales price required to be made pursuant to the terms of the Purchase Contract, (b) the aggregate amount of bona fide closing costs due to any Person that is not an Affiliate of the Borrower, and (c) commissions actually paid to Borrower's sales representatives in connection with the sale of any Residential Unit not to exceed three percent (3%) of the gross sales price of such Residential Unit.

"New Business Subsidiaries" means Monterey Homes Arizona, Inc., an Arizona corporation to be formed, and Monterey Homes Construction, Inc., an Arizona corporation to be formed.

"Norwest" means Norwest Bank Arizona, National Association, and its successors and permitted assigns, in its capacity as Lender.

"Note" or "Notes" means, individually and collectively, the promissory notes evidencing the Construction Line, the Guidance Loans and the Term Loan, completed, executed and delivered by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of any such promissory note.

"Obligations" means all unpaid principal of, and accrued and unpaid interest on, the Notes, disbursements in respect of any Letter of Credit, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party arising under the Loan Documents.

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"Obligated Group" means the Borrower, the Drop-Down Subsidiaries, when formed, the New Business Subsidiaries, when formed and, after the Merger, the Public Company.

"Option Contract" means any executory purchase and sale agreement or

option agreement providing for the sale of Lots in a Subdivision by a bona fide third party Person to Borrower.

"Other Amounts" means all amounts payable by Borrower to Lenders under this Agreement and any other Loan Document.

"Owner's Equity" means such Person's total assets minus total Liabilities, each as determined in accordance with GAAP.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Exceptions" means current taxes, assessments, community facilities district and other improvement lien assessments; statutory liens securing obligations not yet due, contractual obligations for payment of marketing, advertising and promotion costs not yet due, and contractual obligations for deferred lot premiums approved by Lenders and not yet due; easements, covenants, conditions and restrictions and other matters disclosed by any Title Policy obtained by Agent; and any matters customarily associated with residential real estate developments which do not secure the payment of money or do not otherwise have any Material Adverse Effect on the value, operation, marketability on sale of the property in question.

"Person" means any natural person, corporation, firm, enterprise, trust, association, company, limited liability company, partnership, limited liability partnership, joint venture or other entity or organization, or any government or political subdivision or any agency, department, or instrumentality thereof.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

"Presold" means a Residential Unit subject to a Purchase Contract as of the date of determination.

"Project" means a product line of Residential Units of substantially the same type design and price range that have been constructed, are under construction, or are to be constructed, within a Subdivision.

"Pro Rata Share" means, for each Lender, the ratio that such Lender's Commitment bears to the Aggregate Commitment.

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"Public Company" means Homeplex Mortgage Investment Corporation, a Maryland corporation, which, as part of the Merger, will change its corporate name to Monterey Homes Corporation.

"Purchase Contract" means a bona fide enforceable purchase contract for a Residential Unit executed by Borrower and a bona fide third party purchaser who is not an Affiliate of Borrower with no contingencies (except a financing contingency provided the purchaser has delivered a preliminary loan approval letter to Borrower, which is acceptable to Agent) and with a nonrefundable cash deposit from the purchaser of not less than two percent (2%) of the sale price of the Residential Unit, which Purchase Contract continues to be effective and which Borrower reasonably and in good faith believes will close.

"Real Estate" means any interest in real property, including, without limitation, leasehold interests, together with all Improvements, now or hereafter located thereon, all privileges and other rights now or hereafter made appurtenant thereto, and all easements and rights of way, public or private, now or hereafter used in connection therewith, all tenements, hereditaments, rights, benefits, privileges, water, water rights, shares of stock evidencing water rights, oil, gas, minerals and appurtenances now or hereafter belonging or in any manner appurtenant thereto, and all the reversions, remainders, rents, issues and profits thereof.

"Recent Balance Sheet" is defined in Section 11.5.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of

the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

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"Reserve Requirement" means the reserve requirement for member banks of the Federal Reserve System pursuant to Regulation D.

"Residential Unit" means a Lot with a residential housing unit located thereon, or intended to be located thereon, that is (or, upon completion of construction thereof, will be) available for sale.

"Risk-Based Capital Guidelines" means the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Securities" of any Person means equity securities and debt securities and any other instrument commonly understood to be a security issued by that Person.

"Securities Pledge Agreement" means, prior to the Merger, those certain Securities Account Pledge and Security Agreements of even date herewith from Individual Guarantors in favor of Agent, together with the Acknowledgment of Control of Pledged Securities from Norwest Bank Arizona, National Association, as Account Holder, and after the Merger, that certain Securities Account Pledge and Security Agreement dated as of the effective date of the Merger from Public Company in favor of Agent, together with the Acknowledgment of Control of Pledged Securities from PaineWebber Incorporated, as Account Holder.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Spec" means either (i) a Residential Unit under construction or completed (other than a Model Home) that is not subject to a Purchase Contract thereon or (ii) a Residential Unit that is subject to a Purchase Contract under which there exists any contingency which has not been removed to the satisfaction of Agent.

"Subdivision" or "Subdivisions" means, individually or collectively, Rancho Vistoso (55' and 70'), Lincoln Place, Palos Verde, Scottsdale Country Club, Portales, Tierra Bella, including Chama Lots 34 and 35 (Construction Line only), Eagle Mountain, Sunridge Canyon, Grayhawk, Canada Vista, Castle Rock A (Construction Line only), Castle Rock F and Castle Rock G, and any other subdivision approved by Lenders as provided herein.

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

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

"Tangible Assets" means, as of any date of determination, the consolidated assets of the Obligated Group as shown on its consolidated balance sheet, minus all assets classified as intangible assets under GAAP, including, without limitation, goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, permits, covenants not to compete, and rights related thereto, minus any stock or other securities or evidences of indebtedness of any other Person, any loans or advances to any other Person, or any investment or interest whatsoever in any other Person, including specifically, but without limitation, any partnership or joint venture.

"Term Loan Maturity Date" is defined in Section 6.1(c).

"Term Note" is defined in Section 6.1(c).

"Termination Date" means December 19, 1998.

"Title Policy" means an ALTA Lender's Title Policy (1992), with Form 3R, 5, 6, 7 (deleting creditors' rights exception), 8.1, patent and water rights endorsements or equivalent, and such other endorsements as Agent shall require,

in an amount and by a title insurance company satisfactory to Lenders insuring the applicable First Mortgage in Agent's favor to be a valid first lien and encumbrance on the Real Estate, Lots and/or Residential Units described therein, subject only to the Permitted Exceptions.

"Total Draws" means, with respect to the Construction Line, the total amount of Advances made with respect to a particular Residential Unit in the Collateral Base, including, without limitation, interest payments made directly by Agent from the interest reserve established in connection with each Residential Unit in the Collateral Base.

"Type" means, with respect to any Advance, its nature as a Floating Interest Rate Advance or Eurodollar Advance.

"Unaudited Financial Statements" is defined in Section 11.3(b).

"Unfunded Liabilities" means the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such

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Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans.

"Unmatured Default" means an Event that with the giving of notice and/or passage of time, if not cured, would constitute an Event of Default.

1.2. Computation of Time Periods. For the purposes of this Agreement, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including", the words "to" and "until" each mean "to but excluding" and the word "through" means "to and including".

1.3. Accounting Terms. All accounting terms used and not specifically defined herein shall be construed in accordance with GAAP.

2. EXISTING LOANS

2.1. Outstanding Loans; Payment Upon Effective Date.

(a) Borrower acknowledges with respect to the amounts owing to Lenders by Borrower or by Subsidiaries under any prior credit agreements that Borrower or Subsidiaries have no offset, defense or counterclaim with respect thereto, no claim or defense in abatement or reduction thereof, nor any other claim against Lenders or with respect to any document forming part of the transaction in respect of which prior credit agreements were made or forming part of any other transaction under which Borrower or any of the Subsidiaries is indebted to Lenders. Borrower acknowledges that all interest imposed under any such prior credit agreements through the Effective Date, and all fees and other charges that have been collected from or imposed upon Borrower or Subsidiaries with respect to the loans evidenced by prior credit agreements (including the effective rate of interest which said fees and charges may represent), were and are agreed to, and were properly computed and collected, and that Lenders have fully performed all obligations that they may have had or now have to Borrower and Subsidiaries. As of the date of this Agreement and prior to the funding of any Advances hereunder, the outstanding principal balance, accrued and unpaid interest and other charges due under all prior credit agreements between Borrower and its Subsidiaries and Norwest is \$11,614,135.61. As of the date of this Agreement and prior to the funding of any Advances hereunder, the outstanding principal balance, accrued and unpaid interest and other charges due under all prior credit agreements between Borrower and its Subsidiaries and BOAZ is \$6,006,713.89 (collectively, the "Existing Loans").

(b) On the Effective Date, the Lenders shall severally make an Advance to the Borrower in the aggregate amount of the then outstanding principal amount of the Existing Loans (but, as to each Lender, not exceeding the amount of its Aggregate Commitment), the proceeds of which shall be applied by the Borrower to repay the Existing Loans in full.

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(c) The Loans are being made to refinance the Existing Loans and other existing indebtedness of Borrower. It is the intention of the parties that Lenders will be subrogated to, and succeed to, the lien priority of all prior lenders.

3. CONDITIONS PRECEDENT

3.1. Conditions of Effectiveness. This Agreement shall become effective when the Lenders shall have received counterparts of this Agreement executed by the Borrower and each of the Lenders; provided, however, that the Lenders shall not be required to make the initial Advance hereunder, unless and until the Agent shall have received each of the documents specified in subsections (a) - (p) below (with all documents required below, except as otherwise specified, to be dated the date of receipt thereof by the Agent, which date shall be the same for all such documents), and each of such documents to be in form and substance satisfactory to the Agent, and the conditions specified in subsections (q) and

(r) below shall have been satisfied:

(a) Payoff statements from all of Borrower's existing lenders which set forth all amounts owed by the Borrower to the existing lenders.

(b) The Notes evidencing the Loans to be made hereunder.

(c) The Mortgages encumbering all of the Real Estate, Lots and Residential Units for the benefit of Agent.

(d) Solvency Certificates from each Borrower.

(e) The Guaranties.

(f) The Securities Pledge Agreement.

(g) The Environmental Indemnity Agreement.

(h) The Title Policy(ies) (or an irrevocable commitment by the title insurance underwriter to issue such Title Policy) in the aggregate amount of \$29,757,045.00.

(i) The favorable written opinion by counsel for the Borrower, dated the Effective Date, addressed to the Lenders and in form and substance satisfactory to the Agent. The Borrower hereby instructs its counsel to prepare its opinion and deliver it to Lenders for their benefit, and such opinion shall contain a statement to such effect.

(j) The following supporting documents with respect to each Borrower: (i) a copy of its certificate of incorporation, certified as of a current date to be a true and accurate copy by the appropriate Governmental Authority of its state of incorporation; (ii) a certificate of the appropriate Governmental Authority, dated as of a date reasonably close to the Effective Date, as

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to its existence and good standing; (iii) a certificate of the appropriate Governmental Authority of each jurisdiction, other than its state of incorporation, in which it does business, as to its qualification as a foreign corporation; (iv) a copy of its by-laws, certified by its Secretary or Assistant Secretary to be a true and accurate copy of its by-laws in effect on the Effective Date; (v) a certificate of its Secretary or Assistant Secretary, dated the Effective Date, as to the incumbency and signatures of its officers who have executed any documents in connection with the transactions contemplated by this Agreement; (vi) a copy of resolutions of its Board of Directors, certified by its Secretary or Assistant Secretary to be a true and accurate copy of resolutions duly adopted by the Board of Directors that are in full force and effect on the Effective Date, authorizing the execution and delivery by it of this Agreement, the Notes and the other Loan Documents and the performance by it of all its obligations thereunder; and (vii) such additional supporting documents and other information with respect to its operations and affairs as the Agent may reasonably request.

(k) A certificate signed by a duly authorized officer of each Borrower certifying: (i) that the representations and warranties of the Borrower contained in Article 11 hereof are correct and accurate on and as of the date of that certificate as though made on and as of that date, (ii) that no Event has occurred and is continuing which constitutes an Event of Default or Unmatured Default hereunder, (iii) copies of each Option Contract and security instrument given by Borrower to the optionor under any such Option Contract, as true, correct and complete copies of the original documents; and (iv) such other matters as Lenders shall request.

(l) The projected average quarterly absorption of all Lots to be refinanced with each Guidance Loan under the Guidance Line as of the Effective Date, in form and substance satisfactory to Lenders.

(m) The Collateral Base Certificate to be effective as of the Effective Date, as required pursuant to Section 5.2(d).

(n) Current Uniform Commercial Code lien, litigation and judgment searches from the applicable Governmental Authority or a search company or on-line service satisfactory to Agent, in each jurisdiction where Borrower is transacting business and in its state of incorporation, satisfactory to Lenders in their sole and absolute discretion.

(o) Written disbursement instructions, signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may reasonably request.

(p) Such other documents as any Lender or its counsel may reasonably request.

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(q) There shall not have occurred any changes in the consolidated financial condition or results of operations of the Borrower from

that reflected in the financial statements dated September 30, 1996, which have, or reasonably could be expected to have, in the judgment of the Lenders, a Material Adverse Effect on the Borrower's operations, taken as a whole.

(r) The Existing Loans and all of the other credit arrangements relating to the Collateral shall have been simultaneously repaid in full from the proceeds of the initial Advance hereunder and any credit agreements in connection with the Existing Loans and all other credit arrangements relating to the Collateral shall have been terminated.

3.2. Conditions Precedent to All Borrowings After the Merger.

(a) The Lenders shall not be required to make any Loan on or after the effective date of the Merger unless on or prior to the applicable Borrowing Date:

(i) Lenders shall have received an executed Assignment and Assumption Agreement from Borrower, as assignor, and the Drop-Down Subsidiaries, as assignee, in form and substance satisfactory to Lenders, together with such corporate resolutions, officers' certificates, attorneys' opinions, solvency certificates, and other documentation as Lenders shall require.

(ii) Lenders shall have received (A) the Securities Pledge Agreement from Public Company and evidence that there are cash and Cash Equivalents with a market value of no less than the then outstanding principal balance of the Term Loan in the securities account referred to therein (or, to the extent of any shortfall, Borrower has unused availability under the Construction Line equal to or greater than such shortfall based upon the latest Construction Status Report and Collateral Base Certificate and all conditions to such Construction Line Advances have been satisfied), (B) Guaranties from Public Company and all of the direct and indirect Subsidiaries of Public Company that are not Borrower, and (C) the Environmental Indemnity Agreement from Public Company and all of the direct and indirect Subsidiaries of Public Company, that are not Borrower, and in each case in form and substance satisfactory to Lender, together with such corporate resolutions, officers' certificates, solvency certificates, attorneys' opinions and other documentation as Lenders shall require.

(iii) the Agent shall have received a certified copy of the Articles of Merger from the applicable Governmental Authorities of the States of Arizona and Maryland, and any other documents or instruments filed with any Governmental Authority with respect to the Merger and any subsequent amendments to the Certificate of Incorporation of Public Company.

(iv) Lenders shall have a received opinions of counsel that the Merger has been duly approved by the Board of Directors and shareholders of the constituent

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corporations, the Articles of Merger have been duly filed with the applicable Governmental Authorities and the Merger has become effective.

(v) Lenders shall have received such opinions of counsel with respect to the due formation, corporate authority, execution and delivery and enforceability of the Loan Documents, and such other matters as Lenders or their respective counsel may require, with respect to the Drop-Down Subsidiaries, the Public Company and the Subsidiaries.

3.3. Conditions Precedent to All Borrowings.

(a) The Lenders shall not be required to make any Advance (or any continuation of an existing Borrowing) or issue a Letter of Credit, unless on the applicable Borrowing Date:

(i) all of the matters described in Section 3.1 have been satisfied, and, after the Merger, all of the matters described in Section 3.2 have been satisfied.

(ii) the Agent shall have received notice of Borrower's request for the Advance with respect thereto as provided in Sections 8.2 and 8.13, if applicable, and such other approvals, opinions or documents as the Agent may reasonably request;

(iii) the representations and warranties of the Borrower contained in Article 11 hereof are true and correct as of such Borrowing Date; provided, however, that for the purposes hereof, (A) from and after the date of delivery by the Borrower pursuant to Section 12.4 (a) of their consolidated financial statements for the year ended December 31, 1996, the references in Section 11.3(a) to "Audited Financial Statements" shall be deemed to be references to the annual audited financial statements most recently delivered by the Borrower pursuant to Section 12.4(a) as of the date of the request for an Advance; and (B) from and after that date of delivery by the Borrower pursuant to Section 12.4(b) of their financial statements for the period ended October 31, 1996, the references in Section 11.3(b) to "Unaudited Financial Statements" shall be deemed to be references to the monthly or

quarterly unaudited financial statements most recently delivered by the Borrower pursuant to Sections 12.4(b) or (c) as of the date of that request for an Advance;

(iv) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel;

(v) The Agent shall have prepared a current Construction Status Report and a current Collateral Base Certificate from Borrower;

(vi) There exists no Event of Default or Unmatured Default;

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(vii) The making of the Advance will not cause the outstanding principal amount of the Construction Line to exceed the Collateral Base or the Construction Line Commitment, or the making of the Advance will not cause the outstanding principal amount of the Guidance Loans, plus any outstanding Letter of Credit commitments, plus the applicable interest reserves, to exceed the Guidance Line Commitment, as applicable, nor will the making of the Advance result in any Event of Default or Unmatured Default;

(viii) Each Subsidiary of any member of the Obligated Group shall have executed and delivered to Agent a Guaranty in form and substance satisfactory to Lender; and

(ix) If the merger has not occurred on or prior to March 31, 1996, then, on such date, Individual Guarantors shall contribute as paid-in capital, and/or advance as Subordinated Debt with no interest or principal payments required so long as the Loans are outstanding or Lenders have any obligation to make Advances or issue Letters of Credit, an aggregate amount equal to the greater of (i) \$4,000,000 or (ii) the then outstanding indebtedness under the Term Loan.

(b) Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that all of the conditions contained in this Section 3 have been satisfied.

4. THE GENERAL TERMS OF THE LOANS

4.1. Loan Structure. The Loans shall consist of the following components, and Advances for each of the components shall be limited to the purposes specified herein unless Lenders shall expressly agree otherwise:

(a) The Construction Line described in Article 5.

(b) The Term Loan described in Article 6.

(c) The Guidance Line described in Article 7.

4.2. Maximum Amount of All Loans. The maximum principal amount of outstanding Advances shall not at any time exceed \$46,052,500.00.

4.3. Ratable Loans. Each Advance shall be made by the several Lenders ratably in their respective Pro Rata Shares.

4.4. Types of Advances, Final Maturity.

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(a) The Advances may be Floating Interest Rate Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with Section 8.2.

(b) All Obligations shall be fully repaid and satisfied by the Borrower on or before the applicable Maturity Date or shall become due and payable pursuant to Section 14.1 below.

(c) The maximum number of Eurodollar Loans outstanding at any time shall not exceed five (5).

4.5. Guaranties. On the Effective Date, Individual Guarantors will deliver to Lenders their joint and several Guaranties of the Obligations, and, upon satisfaction of all conditions precedent in Section 3.1 hereof, all prior guaranties of Individual Guarantors with respect to the Existing Loans are hereby terminated. Provided that no Event of Default or Unmatured Default has occurred and is continuing, after the effectiveness of the Merger, Public Company and all of its direct and indirect Subsidiaries that are not Borrower, will deliver to Lenders their joint and several Guaranties of the Obligations and, if the Term Loan remains outstanding, the Securities Pledge Agreement from Public Company, together with evidence that the securities account referenced therein contains cash and Cash Equivalents equal to the then outstanding principal balance of the Term Loan, and the Environmental Indemnity Agreement, and, subject to the terms and conditions of this Agreement, Lenders shall, immediately upon satisfaction of the conditions set forth in Section 3.2 of this Agreement, cancel and return the Guaranties of Individual Guarantors and

terminate the Securities Pledge Agreements from, and Environmental Indemnity Agreement with respect to, the Individual Guarantors. Agent shall execute such documents and instruments as the Individual Guarantors shall reasonably request to evidence the cancellation and termination of the Guaranties, the Securities Pledge Agreement and the Environmental Indemnity Agreement with respect to the Individual Guarantors.

4.6. Collateral. The Guaranty of William W. Cleverly is secured by cash and/or Cash Equivalents in an amount equal to one-half (1/2) of the outstanding principal balance of the Term Loan, and the Guaranty of Steven J. Hilton and Binee Hilton is secured by cash and/or Cash Equivalents in an amount equal to one-half (1/2) of the outstanding principal balance of the Term Loan. After the effectiveness of the Merger, Public Company will deliver to Agent a Securities Pledge Agreement, and an Acknowledgment of Pledged Securities from PaineWebber Incorporated, as Account Holder, with respect to Public Company's securities account holding an amount equal to no less than the then outstanding principal balance of the Term Loan, in cash and/or Cash Equivalents, and provided that no Event of Default or Unmatured Default has occurred and is continuing, Lender shall release its lien and security interest in the securities accounts of Individual Guarantors. Agent shall execute such documents and instruments as Individual Guarantors shall reasonably request to evidence the cancellation and termination of the Guaranties and Securities Pledge Agreement.

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4.7. Single Obligation. All of the Loans shall constitute one general obligation secured by Agent's security interest in all the Collateral and by all other security interests, liens, claims and encumbrances, now, or at any time hereafter, granted by Borrower to Agent. All of the rights of Agent and Lenders set forth in this Agreement shall apply to any modification, amendment, supplement or restatement of this Agreement and the other Loan Documents

5. MASTER CONSTRUCTION LINE

5.1. The Construction Line. Subject to the terms and conditions of this Agreement, Lenders agrees to make available to Borrower a construction line of credit (the "Construction Line") as follows:

(a) Amount. The maximum principal amount outstanding shall not exceed the Construction Line Commitment.

(b) Purpose. The Construction Line Commitment will be available to Borrower on a revolving basis to finance Lot Release Prices, Lot Option Prices and construction of Presolds, Specs and Model Homes in the Projects.

(c) Evidence of the Construction Line. The Construction Line Commitment will be evidenced by revolving credit promissory notes from Borrower to Lenders in the amount of each Lender's Pro Rata Share of the Construction Line Commitment, and any amendments, modifications or supplements thereto and any note or notes taken wholly or partially in renewal or extension thereof or substitution or replacement therefor. Each Advance under the Construction Line shall bear interest in accordance with this Agreement and shall be payable in monthly installments of interest only on each Monthly Payment Date, beginning on January 10, 1997 ("Starting Date"), with the entire unpaid principal balance plus accrued interest due and payable, absent earlier acceleration, on the June 19, 2000 (the "Construction Line Maturity Date").

(d) Advances. From and including the Effective Date, and prior to the Maturity Date, each Lender severally agrees, on the terms and conditions set forth in this Agreement and in reliance upon the representations and warranties of Borrower herein, to make Advances to or on behalf of Borrower, as Borrower shall request, but in no event more frequently than four (4) times per calendar month, provided immediately upon the disbursement of each Advance, the outstanding principal balance of the Construction Line does not exceed the lesser of the Collateral Base or the Construction Line Commitment. Subject to the terms and conditions hereof, Borrower may borrow, prepay and reborrow under this Section 5.1(d) so long as the principal balance of the Construction Line at any time outstanding does not exceed the lesser of the Collateral Base or the Construction Line Commitment. Borrower shall repay the unpaid principal amount of the Loan, all accrued interest thereon, and any other amount outstanding hereunder on or before the Construction Line Maturity Date.

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(e) Mandatory Principal Payments. Upon the conveyance of any Residential Unit subject to a Mortgage in favor of Agent and at such time as any Residential Unit may no longer be included in the Collateral Base, Borrower shall pay to Agent an amount equal to the Total Draws with respect to such Residential Unit. Upon the occurrence of an Event of Default or Unmatured Default and during the continuance thereof, upon the conveyance of any Residential Unit subject to a Mortgage in favor of Agent, Borrower shall pay to Agent an amount equal to the Net Proceeds of such sale.

(f) Optional Principal Payments. The Construction Line or any portion thereof may be prepaid at any time in any amount without premium or penalty. Notice of prepayment and payment shall be made to Agent prior to 10:00 a.m., Phoenix time, on any Business Day.

(g) Unused Commitment Fee. The Borrower agrees to pay to the Agent for the account of each Lender an unused commitment fee (the "Unused Commitment Fee") of 25 basis points per annum on the weekly (as determined on the last Business Day of each week) weighted average unborrowed and unused portion of such Lender's Construction Line Commitment (i.e., after deducting from the Construction Line Commitment of such Lender the outstanding amount of all Loans under the Construction Line made by such Lender) from the Effective Date to and including the Construction Line Maturity Date (to be prorated for any partial calendar quarter). The Unused Commitment Fee shall be payable quarterly in arrears as of the end of March, June, September and December and the Construction Line Maturity Date, and on or before ten (10) days after delivery of a written statement from Agent of the amount of the Unused Commitment Fee. Borrower's obligation to pay the Unused Commitment Fee shall be secured by the Collateral.

(h) Loan Fee. The Borrower agrees to pay to the Agent for the account of each Lender a loan fee (the "Construction Line Loan Fee") of 45 basis points per annum on the weekly (as determined on the last Business Day of each week) weighted average outstanding Advances from the Effective Date to and including the Termination Date, payable quarterly in arrears as of the end of March, June, September and December and the Construction Line Maturity Date, and on or before ten (10) days after delivery of a written statement from Agent of the amount of the Construction Line Loan Fee. Borrower's obligation to pay the Construction Line Loan Fee shall be secured by the Collateral.

5.2. Collateral Base. The Collateral Base shall equal the sum of the amounts described in Subsections (a), (b) and (c) below (the "Collateral Base"):

(a) For all Presolds (excluding those Residential Units that were previously included in the Collateral Base as Specs), the product of the following:

(i) the lesser of the following:

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(A) eighty percent (80%) of the Appraised Value of the Residential Unit's Base Plan, or

(B) the sum of (i) ninety-five percent (95%) of the Agreed Cost of such Residential Unit's Base Plan Budget plus (ii) sixty percent (60%) of the agreed value of the Approved Upgrades, multiplied by

(ii) such Residential Unit's Completion Percentage, as calculated by Agent as set forth herein, plus

(b) For all Residential Units that are initially Specs, and for all Presolds that become Specs (after the expiration of nine month period applicable to Presolds), the product of the following:

(i) the lesser of the following:

(A) seventy-five percent (75%) of the Appraised Value of the Residential Unit's Base Plan, or

(B) the sum of (i) eighty-five percent (85%) of the Agreed Cost of such Residential Unit's Base Plan Budget plus (ii) sixty percent (60%) of the agreed value of the Approved Upgrades, multiplied by

(ii) such Residential Unit's Completion Percentage, as calculated by Agent as set forth herein, plus

(c) For all Model Homes, the product of the following:

(i) the lesser of the following:

(A) eighty percent (80%) of the Appraised Value of the Model Home, including Lot, or

(B) ninety percent (90%) of the actual cost of the Model Home, excluding furniture and other furnishings, multiplied by

(ii) such Model Home's Completion Percentage, as calculated by Borrower and confirmed from time to time by Agent as set forth herein.

(d) The Collateral Base shall be determined monthly based on the Construction Status Report and shall be calculated by Agent on the Collateral Base Certificate. The Collateral Base applicable to the reporting month shall not be revised until receipt by Agent of the next monthly Construction Status Report and inspections of the Residential Units. No Residential

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Units not then included in the Collateral Base shall be eligible for inclusion in the Collateral Base after the Termination Date. On the Termination Date, the Construction Line shall cease to be a revolving commitment and from and after

such date Lenders shall not be obligated to include any new Residential Units within the Construction Line and shall not be obligated to make any Advance for new Residential Units for which an Advance has not already been made; provided, however, Borrower shall continue to be entitled to Advances for Residential Units for which an Advance has already been made in accordance with the terms of this Agreement.

5.3. Limitations on Residential Units in Collateral Base.

(a) Notwithstanding anything to the contrary contained in subsections (b) and (c) below, the total of all Residential Units that are Model Homes or Specs shall not exceed six (6) Residential Units in any Project (with any excess being excluded from the Collateral Base). If, at any time, a Presold becomes a Spec and, at the time of the delivery of the next Construction Status Report and Collateral Base Certificate, there are more than six (6) Model Homes and Specs combined in such Project (including the Presold(s) that became Spec(s)), Borrower shall determine which Specs or Model Homes to exclude from the Collateral Base and Borrower shall pay to Agent the amount of the Total Draws with respect to such Residential Unit(s). So long as Borrower has not requested that the Mortgage in favor of Agent with respect to such Residential Unit be released and reconveyed, if such Residential Unit subsequently becomes a Presold or there are less than six (6) Model Homes and Specs combined in such Project, Borrower may thereafter include such Residential Unit in the next Construction Status Report and Collateral Base Certificate for purposes of determining the Collateral Base; provided, however, for purposes of determining the period of time that such Residential Unit may thereafter remain in the Collateral Base, the period of time that such Residential Unit was previously included in the Collateral Base shall be included.

(b) Notwithstanding anything to the contrary contained in Section 5.2(a) above, a Presold may only remain in the Collateral Base for nine (9) months from the first inclusion of such Residential Unit in the Collateral Base; provided, however, Borrower may thereafter continue to include a Presold in the Collateral Base for an additional three (3) months (and shall denote such inclusion on the Construction Status Report and the Collateral Base Certificate) if the Purchase Contract continues to be effective and Borrower reasonably and in good faith believes the sale of the Residential Unit will close in accordance with the Purchase Contract. Any Presold included in the Collateral Base for twelve (12) months shall thereafter be excluded from the Collateral Base and Borrower shall pay to Agent the amount of the Total Draws with respect to such Residential Unit.

(c) Notwithstanding anything to the contrary contained in Section 5.2(b) above, but subject to Section 5.3(a) above, a Spec, or a Presold that becomes a Spec, may only remain in the Collateral Base for twelve (12) months (including any period of time that such Residential Unit was a Presold); provided, however, Borrower may thereafter continue to include

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a Spec in the Collateral Base for two consecutive additional ninety (90) day periods provided that Borrower makes a ten percent (10%) principal curtailment payment for each ninety (90) day period, concurrently with the delivery of the first Collateral Base Certificate on or after the expiration of the period for inclusion of such Spec in the Collateral Base and concurrently with the delivery of the first Collateral Base Certificate on or after the expiration of the first 90-day extension period, as the case may be. Any Residential Unit that is or becomes a Spec and has been included in the Collateral Base for twelve (12) months (and one or both of the extension periods have lapsed, if applicable) shall thereafter be excluded from the Collateral Base and Borrower shall pay to Agent the amount of the Total Draws (less any curtailment payments made by Borrower) with respect to such Residential Unit. If a Presold becomes a Spec, on the later of delivery of the first Collateral Base Certificate after such Residential Unit has been included in the Collateral Base for nine (9) months or delivery of the first Collateral Base Certificate after such Presold becomes a Spec, Borrower shall pay to Agent any amount necessary to reduce the Total Draws with respect to such Residential Unit to comply with the Collateral Base requirements for Specs in Section 5.2(b).

(d) Notwithstanding anything to the contrary contained in Section 5.2(c) above, but subject to Section 5.3(a) above, a Model Home may only remain in the Collateral Base for twenty-four (24) months; provided, however, Borrower may thereafter continue to include a Model Home in the Collateral Base for one additional twelve (12) month period provided that Borrower makes a fifteen percent (15%) principal curtailment payment concurrently with the delivery of the first Collateral Base Certificate on or after the expiration of the period for inclusion of such Residential Unit in the Collateral Base. Any Model Home that has been included in the Collateral Base for twenty-four (24) months (and the extension period has lapsed, if applicable) shall thereafter be excluded from the Collateral Base and Borrower shall pay to Agent the amount of the Total Draws (less any curtailment payments made by Borrower) with respect to such Residential Unit.

5.4. Monthly Construction Status Report to Agent. On or before the fifth (5th) Business Day prior to the end of each calendar month during the term of this Agreement, Borrower shall deliver to Agent a report of new Residential Units to be added to the Collateral Base (with the Residential Unit's

designation as a Presold, Spec or Model Home), any Presolds that are no longer subject to a Purchase Contract and any Residential Units previously included in the Collateral Base that Borrower desires to now exclude from the Collateral Base, and based upon the foregoing information, Agent will prepare a report substantially in the form attached hereto as Exhibit "E" and incorporated herein by this reference, or in a form otherwise approved by Borrower and Agent (the "Construction Status Report"). To the extent not previously delivered to Agent, there shall be delivered to Agent with Borrower's report referenced above (a) a copy of each Purchase Contract, including any addenda or schedules thereto, setting forth the purchase price thereof, the date of the Purchase Contract, the location of the applicable Residential Unit, the signatures of the purchaser and Borrower and any applicable Lot premium, options, extra

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items, upgrades, etc.; (b) a copy of the preliminary loan approval executed by the lender or mortgage broker under the Purchase Contract, if applicable; (c) if requested by Agent, a copy of escrow instructions, if any, relating to each such Purchase Contract; and (d) if requested by Agent, a copy of the building permits for each Residential Unit to be added to the Collateral Base. Agent shall verify that it has satisfactory evidence that a First Mortgage in favor of Agent, subject only to the Permitted Exceptions, has been recorded as a Lien against each Residential Unit included in the Collateral Base, Agent has received an appraisal for each such Residential Unit's Base Plan and Agent has received the Title Policy commitment with respect to each such Residential Unit, all in form and substance acceptable to Agent.

5.5. Inclusion in Collateral Base. No Residential Unit shall be included in the Collateral Base until such time as:

(a) The First Mortgage in favor of Agent encumbering said Residential Unit shall have been recorded, and Agent shall have received a Title Policy or an irrevocable commitment from the title insurer to issue the Title Policy, evidencing a first lien and security interest in the Residential Unit, subject only to the Permitted Exceptions;

(b) An appraisal setting forth an Appraised Value to be used with respect to such Residential Unit's Base Plan has been received and approved by Lenders;

(c) A Phase 1 Environmental Report and additional environmental reports or assessments, if required by Agent, with respect to the Project in which the Residential Unit is located have been received and approved by Lenders.

(d) Such other documentation as the Agent may reasonably request (including, without limitation, an Assignment of Leases, Rents and Profits, UCC-1 Financing Statements, collateral assignments of agreements relating to the Residential Unit, a survey or plat of the property, and insurance certificates naming the Agent under a mortgagee endorsement which is acceptable to Agent).

5.6. Inspections. Agent will contract with independent inspectors, or use its internal inspecting engineers (and charge Borrower such amount as Agent determines to be reasonable compensation for such internal inspecting engineers) to conduct monthly inspections of the Residential Units included in the Collateral Base and Borrower shall pay the cost of such inspections and any inspections undertaken by or on behalf of Agent or any Lender after the occurrence, and during the continuance, of an Unmatured Default or an Event of Default. In addition to such inspections, Agent, at its own expense and at any time, shall be entitled to send its officers or inspecting engineers to each Project for inspections to review the status of construction and to prepare the Construction Status Reports and determine the Completion Percentage.

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5.7. Collateral Base Adjustments. The Collateral Base shall be determined each month based upon the current Construction Status Report. Agent shall adjust the Collateral Base during each calendar month, on or before the later of (a) the eighth (8th) calendar day of each calendar month or (b) fifteen (15) calendar days after Agent's receipt from Borrower of the information necessary to complete the Construction Status Report and the Collateral Base Certificate, as required to reflect (i) any release of a Residential Unit included in the Collateral Base from the Collateral, (ii) any change in status of a Residential Unit, and (iii) after notice to Borrower, any Event known to Agent which results in any Residential Unit included in the Collateral Base becoming ineligible for inclusion in the Collateral Base. Agent's calculation of the Collateral Base shall be conclusive and binding on Borrower upon readjustment, absent manifest error. If the outstanding Advances under the Construction Line exceed the maximum availability under the Collateral Base, Borrower shall, upon telephonic notice from Agent, immediately repay all amounts necessary to reduce the outstanding Advances under the Construction Line to the Collateral Base and/or pay to Agent the amount of the Total Draws with respect to any Residential Unit no longer included in the Collateral Base.

5.8. Defective Work. Agent may withhold from any Advance or, on account of subsequently discovered evidence, withhold from a later Advance, as Agent in its discretion considers necessary to protect Lenders from loss on account of (i) defective work on the Lots or Residential Units that has not been remedied,

(ii) any obligation required by this Agreement or the Loan Documents to have been performed that has not been performed, (iii) liens filed against the Lots or Residential Units, which are not being disputed in accordance with Section 12.3, (iv) failure of Borrower to make payments to the contractors or contractor's failure to pay subcontractors for material or labor, which are not being disputed in accordance with Section 12.3, or (v) a reasonable doubt by Agent that development of the Lots or construction of the Residential Units can be completed for the undisbursed proceeds of the Loan.

5.9. Budget Shortfall. In the event that the applicable Loan amount or so much thereof as Lenders are obligated to Advance is not sufficient in Agent's sole judgment to pay ninety-five percent (95%) of all costs contained in the Base Plan Budget, or other costs necessary to complete the Lots or Residential Units, Borrower shall be solely responsible to provide sufficient funds to pay all costs not Advanced by Lenders, and within three days of demand of Agent, Borrower shall deposit with Agent the amount of funds estimated by Agent to be necessary to remain in compliance with the Base Plan Budget and such funds will be disbursed under the terms hereof before any further Advances under the Loan. Failure to make the deposit required by Agent within three days after notice to Borrower from Agent shall be an Event of Default hereunder.

5.10. Obligations. It is the intention of the parties hereto that the Obligations shall constitute one indebtedness, and shall constitute one general obligation, including all whole or

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partial extensions, renewals or replacements thereof, and including any obligation to perform or forbear from any action as well as any obligation to pay money.

6. TERM LOAN

6.1. The Term Loan. Subject to the terms and conditions of this Agreement, Lenders agree to make available to Borrower the Term Loan as follows:

(a) Amount. The amount of the Term Loan shall be \$6,052,500.00.

(b) Purpose. The Term Loan will be advanced to Borrower in one Advance on the Effective Date for the purpose of refinancing an existing loan made by Norwest to Borrower which was used to fund a portion of the distributions of retained earnings of the Borrower to the shareholders prior to the Merger.

(c) Evidence of Term Loan. The Term Loan will be evidenced by installment promissory notes from Borrower to Lenders in the amount of each Lender's Pro Rate Share of the Term Loan, and any amendments, modifications or supplements thereto and any note or notes taken wholly or partially in renewal or extension thereof or substitution or replacement therefor (individually, a "Term Note" and collectively, the "Term Notes"). The Term Loan shall bear interest in accordance with this Agreement and shall be payable in nine (9) monthly principal installments of \$500,000, plus interest, on December 28, 1996 and on the fifteenth (15th) day of each month beginning on January 15 1997, and in two (2) quarterly principal installments of \$750,000 each, plus interest, on June 15, 1997 and August 15, 1997, with the entire unpaid principal balance plus accrued interest due and payable, absent earlier acceleration, on August 28, 1997 (the "Term Loan Maturity Date").

(d) Optional Principal Payments. The Term Loan or any portion thereof may be prepaid at any time in any amount without premium or penalty, and all prepayments shall be applied to payments due in the order of their maturity. Notice of prepayment and payment shall be made to Agent prior to 10:00 a.m., Phoenix time, on any Business Day.

(e) Origination Fee. Borrower has paid to Norwest an origination fee of \$52,500, receipt of which is hereby acknowledged by Norwest. No additional origination fee will be payable in connection with the Term Loan.

(f) Collateral. The Term Loan is secured by the securities accounts, the financial assets in the securities accounts and the security entitlements with respect to each securities account and the financial assets therein, as more particularly described in the Securities Pledge Agreements.

7. GUIDANCE LINE OF CREDIT

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7.1. Guidance Line of Credit. Subject to the terms and conditions of this Agreement, Lenders agree to make available to Borrower the Guidance Line of Credit (the "Guidance Line") as follows:

(a) Amount. The maximum principal amount of the Guidance Line shall not exceed the Guidance Line Commitment.

(b) Purpose. The Guidance Line will be advanced using several individual non-revolving lines of credit for the purpose of refinancing all

Existing Loans that are acquisition and development loans of Borrower upon the Effective Date and, thereafter, for providing new acquisition and development financing on a project specific basis as determined by Lenders in their sole and absolute discretion, and for providing credit enhancement as required by Governmental Authorities in connection with infrastructure improvements (each, a "Guidance Loan"). Upon the payment of the principal indebtedness under any Guidance Loan, the amount of such principal reductions (but, together with the maximum commitments of all other outstanding Guidance Loans, not to exceed the Guidance Line Commitment) will be available for reborrowing by Borrower in accordance with this Agreement.

(c) Evidence of Guidance Line. Each Guidance Loan will be evidenced by Guidance Notes from Borrower to Lenders in the amount of each Lender's Pro Rata Share of the Guidance Loan, and any amendments, modifications or supplements thereto and any note or notes taken wholly or partially in renewal or extension thereof or substitution or replacement therefor. Each Guidance Note shall bear interest in accordance with this Agreement and shall be payable in monthly installments of interest only on the Monthly Payment Date beginning on the month immediately succeeding the first Advance with respect to such Guidance Note, with the entire unpaid principal balance plus accrued interest due and payable, absent earlier acceleration, no more than two years after the first Advance (or, in the case of Advances made on the Effective Date to refinance Existing Loans that are acquisition and development loans, the existing maturities if less than two years). No Guidance Loan will have a maturity date later than two (2) years after the Termination Date (the "Guidance Line Maturity Date").

(d) Advances. From and including the Effective Date, and prior to the maturity date of each Guidance Note, each Lender severally agrees, on the terms and conditions set forth in this Agreement and in reliance upon the representations and warranties of Borrower herein, to make Advances to or on behalf of Borrower, as Borrower shall request, provided immediately upon the disbursement of each Advance, the outstanding principal balance of such Guidance Loan does not exceed the Bulk Land Budget in respect of such Guidance Loan and, provided, further, the aggregate Advances previously made under the Guidance Loan, plus Lenders' commitments to make subsequent Advances under all Guidance Notes and Letters of Credit, plus the remaining balance of all interest reserves established in connection with all outstanding Guidance Notes, does not exceed the Guidance Line Commitment. Each Guidance Loan is a closed-end, non-revolving line of credit and Advances made under such Guidance Loan

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may not be reborrowed. All change orders shall be submitted to Agent. All change orders involving additional costs in excess of \$100,000 individually or in the aggregate, shall require that Borrower immediately provide evidence to Agent that Borrower possesses sufficient funds for the completion of such extras or changes.

(e) Interest Reserve. There shall be established in connection with each Guidance Loan, an interest reserve equal to one-hundred fifteen percent (115%) of the anticipated interest expense during the term of such Guidance Loan. The interest reserve will be applied by Agent to Borrower's monthly interest payments under each Guidance Loan and shall not bear interest until so applied. The interest reserve shall not be available for Advances to Borrower other than to pay monthly interest under the Guidance Notes. If, at any time, Lender reasonably determines that the interest reserve with respect to a Guidance Loan is not sufficient to pay the remaining monthly interest payments with respect to such Guidance Loans, Agent may, to the extent of funds available under such Guidance Loan, increase the interest reserve by an amount determined by Agent in its sole and absolute discretion. To the extent that the interest reserve has been depleted and there is not sufficient funds available under the Guidance Loan to replenish the interest reserve, Agent may require that Borrower deposit with Agent sufficient funds to pay interest for the remainder of the term of such Guidance Loan and, if Agent does not so require Borrower to deposit additional funds for payment of interest, Borrower shall pay all subsequent interest payments on the Monthly Payment Date from its own funds.

(f) Mandatory Lot Takedowns. With respect to the Lots acquired in connection with each Guidance Loan, as of the end of each three-month period from the effective date of such Guidance Loan, on a cumulative basis, Borrower shall have made mandatory Lot release payments to Agent at the Lot Release Prices for no less than seventy-five percent (75%) of the projected average absorption (as approved by Lenders at the time of the making of the Guidance Loan) of Lots acquired in connection with such Guidance Loan. Notwithstanding the foregoing, with respect to the Existing Loans which are being refinanced on the Effective Date, this Section shall not apply and the existing takedown schedules, if any, under such Existing Loans will remain in full force and effect. Subject to the terms and conditions of this Agreement, mandatory Lot takedowns may be accomplished by transferring such Lots to the Construction Line.

(g) Mandatory Principal Payments. All Lot Release Price Advances under the Construction Line shall be applied directly by the Lenders as mandatory principal payments with respect to the applicable Guidance Loan.

(h) Optional Principal Payment. Any Guidance Loan, or any

portion thereof, may be prepaid at any time in any amount without premium or penalty. Notice of prepayment and payment shall be made prior to 10:00 a.m., Phoenix time, on any Business Day.

(i) Origination Fee. Borrower shall pay to the Agent for the account of each Lender an annual origination fee (the "Origination Fee") of 37.5 basis points (prorated for

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any partial year) of the maximum commitment available (including outstanding commitments under Letters of Credit) under each Guidance Loan on the date of execution of such Guidance Loan and as of January 1 of each year during the term of such Guidance Loan, on or before ten (10) days after delivery of a written statement from Agent to Borrower of the amount of the Origination Fee. Notwithstanding the foregoing, with respect to the Origination Fee payable on the Effective Date only, Borrower shall have no obligation to pay an Origination Fee with respect to the Guidance Loans for the Rancho Vistoso 55' Project or the Lincoln Place Project. Borrower will pay Origination Fees with respect to the Rancho Vistoso 55' Guidance Loan and the Lincoln Place Guidance Loan beginning on January 1, 1998 unless such Guidance Loans shall have been paid in full prior to such date. Borrower's obligation to pay the Origination Fee shall be secured by the Collateral. For example, if a Guidance Loan is made on July 1, 1997 and the maximum commitment when made for such Guidance Loan is \$2,000,000, the initial Origination Fee for such Guidance Loan to be paid on the execution date of such Guidance Loan will be \$7,500, prorated for one-half of the year; if the maximum commitment under such Guidance Loan is \$1,500,000 (including outstanding commitments under Letters of Credit) on January 1, 1998, the annual Origination Fee for 1998 will be \$5,625; and if maximum commitment under such Guidance Loan is \$1,000,000 (including outstanding commitments under Letters of Credit) on January 1, 1999 and the Guidance Loan matures on June 30, 1999, the annual Origination Fee for 1999 will be \$3,750, prorated for one-half of the year. Any Origination Fee payable on the Effective Date or January 1 of any year during the term of the Guidance Loan will not be prorated due to a voluntary or involuntary prepayment.

(j) Guidance Loan Documentation. In connection with the making of any Guidance Loan, Borrower and Lenders shall agree upon all of the terms and conditions with respect to such Guidance Loan and, to the extent inconsistent with this Agreement or not addressed in this Agreement, such terms and conditions shall be incorporated into a Guidance Loan addendum, which shall be deemed to be incorporated by this reference into this Agreement. Borrower shall execute and deliver, or cause to be executed and delivered, any required Guidance Loan addenda or supplements, Guidance Notes, First Mortgages, environmental questionnaires and environmental reports, Title Policies, consents of Guarantors and such other agreements, certificates, documents and other instruments as Lenders shall require in connection with their approval of such new Guidance Loan.

7.2. Existing Projects. Upon the Effective Date, Lender shall make sufficient Advances to repay all Existing Loans and other credit arrangements that are acquisition and development loans approved by Lenders. The existing acquisition and development loans that will be refinanced upon the Effective Date will be margined at the lower of (a) the existing margins under such acquisition and development loans, except to replenish the interest reserve, or (b) the Bulk Land Price with respect to such Project.

7.3. Approval of New Projects. To the extent that Borrower desires to finance acquisition and development of additional Projects located in the Phoenix metropolitan area or

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the Tucson metropolitan area, Borrower shall offer Lenders the first right to finance such new Projects under the Guidance Line. Approval of new Projects shall be at Bank's sole and absolute discretion and Lenders shall have no obligation to approve any new Project. If Borrower requests approval of a new Project, Borrower shall provide Lenders written notice of the request for approval, accompanied by the information below, to the extent available, which is complete and accurate (to the extent provided) and is in form and content acceptable to Lenders in its sole and absolute discretion. As any of the information listed below subsequently becomes available, Borrower shall timely submit such information to Lenders. Lenders shall have fifteen (15) days after receipt of such notice to preliminarily approve or to deny such requested Guidance Loan approval. If preliminary approval is not granted within said fifteen (15) day period or the terms of such approval are not acceptable to Borrower, as determined by Borrower in its sole and absolute discretion, it will be deemed that approval has been denied and Borrower may seek financing for such new Project from other sources. If preliminary approval is timely granted, as any of the information listed below subsequently becomes available, Borrower shall timely submit such information to Lenders and Lenders shall finally approve or disapprove such Guidance Loan request within a commercially reasonable period of time:

(a) Surveys or Plat Maps. One or more recorded Plat Maps covering the Project, containing a legal description of the Lots covered by the Plat Map, and showing all boundaries of and lines within such Lots, all streets and other dedications, and all easements affecting such Lots, or a current survey certified to Lenders and prepared in accordance with the Minimum Standard

Detail Requirements for ALTA/ACSM Land Title Surveys as adopted by the American Land Title Association and the American Congress on Surveying and Mapping approved in (1992), including items 1-4, 6, 8, 10, 11 and 13 of Table A, by a registered civil engineer acceptable to Agent in its sole and absolute discretion covering the Project for which Borrower is requesting approval;

(b) CC&R's. All covenants, conditions and restrictions, easements and other rights that exist or are contemplated with respect to the Project for which Borrower is requesting approval;

(c) Types of Units. A description of the types of Residential Units to be constructed within such Project, together with plans and drawings of the Base Plan Residential Unit for each type of Residential Unit;

(d) Base Plan Unit Budgets. A Base Plan Budget for each type of Residential Unit to be constructed within the Project.

(e) Lot Option Price. If applicable, the Lot Option Price with respect to the Lots in the Project, together with the Option Contract and any other documents evidencing or relating to such Lot Option Price.

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(f) Option Information. If applicable, a copy of any Option Contract under which Borrower plans to purchase the Project or Lots within the Project, and any other pertinent information relating to such Option Contract.

(g) Lot Takedown Exhibit. A schedule of the projected average monthly absorption of all Lots to be constructed within the Project.

(h) Approvals. Evidence of appropriate zoning and existence of all necessary governmental and other third-party approvals, including, without limitation, building permits, Arizona Department of Real Estate conditional sales approvals and public reports, architectural committee approvals (to the extent Borrower does not control the granting of such approvals) and any other approvals required under the covenants, conditions and restrictions.

(i) Zoning. Evidence of such zoning (including variances) and other land use entitlements as may be necessary to permit any intended or foreseeable use of the Lots, Project and Residential Units.

(j) Environmental Report. An environmental questionnaire with respect to the Project on Lender's then standard form and a current (dated less than six months from submission) Phase 1 Environmental Site Assessment Report addressed or certified to Lenders and prepared by a registered environmental engineer or other qualified party chosen by Borrower and approved by Agent stating that there are no hazardous substances present in, on, under or around the Property, and that there is no condition or circumstance which warrants further investigation or analysis in the opinion of the preparer of the report.

(k) Utilities. Evidence that all utilities shall be provided which are necessary to develop and subdivide the Lots, and to sell and occupy the Residential Units, including written assurances from such utility companies as Lenders may require.

(l) Taxes. Evidence acceptable to Lenders in their sole and absolute discretion that all real property taxes, assessments, water, sewer or other charges levied or assessed against the Project have been paid in full.

(m) Flood Report. Evidence acceptable to Lenders in their sole and absolute discretion, as to whether (a) the Project is located in an area designated by the Department of Housing and Urban Development as having special flood or mudslide hazards, and (b) the community in which the Project is located is participating in the National Flood Insurance Program.

(n) Preliminary Title Report. A commitment for an ALTA Loan Policy, including all Schedule B exception and requirement items, and evidence satisfactory to Lenders that a reputable title insurance company satisfactory to Lender is prepared to issue title insurance

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policies with respect to each Project for which Borrower is requesting approval, subject only to the Permitted Exceptions.

(o) Base Plan Appraisals. Agent shall have ordered, reviewed and approved the Base Plan appraisals for each type of Residential Unit to be constructed in the Project.

(p) Bulk Sale Appraisals. Agent shall have ordered, reviewed and approved the Bulk Land Price appraisals for the Real Estate.

(q) Governmental Approvals. Any environmental licenses or approvals for operation within or on the Project, if any; and any other applicable governmental permits, approvals, consents, licenses and certificates for the use and operation of the Project or which may affect the value of the Project, including, without limitation, any approvals, licenses or ownership rights for any water or irrigation utilized on the Project, and any and all reports and/or approvals issued with or by the Arizona Department of Real Estate

and/or the United States Department of Housing and Urban Development.

(r) Other Items. The following additional items:

(i) If requested by Lenders, all construction and development contracts related to the Project with scheduled values in excess of \$100,000, including, without limitation, the names and addresses of persons providing labor or materials in connection with the Project; and all subcontracts with scheduled values in excess of \$100,000.

(ii) If requested by Lenders, soils reports for each Project;

(iii) If requested by Lenders, drainage reports (if applicable) for each Project;

(iv) If requested by Lenders, Project projections and analysis for each Project in form and substance acceptable to Lenders in its sole and absolute discretion, including, without limitation, (A) projected Lot and Residential Unit sale prices, absorption and closings, (B) if applicable, projected Lot takedowns under Option Contract or otherwise, (C) projected number of Unsold Units and Model Homes, (D) projected construction and sales time line, and (E) if applicable, as to already active Projects, an Unsold Units report which will indicate the total number of Lots, Lots closed, number of existing Residential Units Under Purchase Contract, Model Homes and Unsold Units, and a historical sales and closing report;

(v) If requested by Lenders, and if applicable, description of any bonding requirements related to each Project; and

(vi) If requested by Lenders, marketing information for each Project; and

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(s) Other. such other documents and information that Lenders may require in their sole and absolute discretion.

7.4. Letters of Credit.

(a) General. Borrower may request that Norwest issue a Letter of Credit, in a form reasonably acceptable to Norwest, appropriately completed, for the account of the Borrower, at any time and from time to time while any Guidance Loan remains in effect for the purpose of providing credit enhancement as required by the applicable Governmental Authorities in connection with infrastructure improvements to be installed under any Guidance Loan. This Section 7.4 shall not be construed to impose an obligation upon Norwest to issue any Letter of Credit that is inconsistent with the terms and conditions of this Agreement.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. In order to request the issuance of a Letter of Credit (or to amend, renew or extend an existing Letter of Credit), Borrower shall hand deliver or telecopy to Norwest (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with subsection (c) below), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if, and upon issuance, amendment, renewal or extension of each Letter of Credit, the Borrower shall be deemed to represent and warrant that, after giving effect to such issuance, amendment, renewal or extension, the sum of the outstanding principal amount of such Guidance Loan, any interest reserve for such Guidance Loan and the aggregate outstanding Letter of Credit commitments for such Guidance Loan do not exceed the maximum commitment with respect to such Guidance Loan.

(c) Expiration Date. Each Letter of Credit shall expire at the close of business on the earlier of the date one year after the date of the issuance of such Letter of Credit or the date that is five (5) Business Days prior to the Maturity Date of such Guidance Loan, unless such Letter of Credit expires by its terms on an earlier date.

(d) Disbursements in Respect of Letters of Credit. Each Lender hereby absolutely and unconditionally agrees to pay to Norwest such Lender's Pro Rata Share of each disbursement made by Norwest in respect of a Letter of Credit. Each Lender acknowledges and agrees that its obligation to pay such Lender's Pro Rata Share of each disbursement in respect of a Letter of Credit pursuant to this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of an Unmatured Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

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(e) Obligations/Absolute. Borrower's obligations to reimburse disbursements in respect of Letters of Credit shall be absolute, unconditional

and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or any Loan Document, or any term or provision therein;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or any Loan Document;

(iii) Borrower, any other party guaranteeing, or otherwise obligated with, Borrower, any member of the Obligated Group, any Subsidiary or other Affiliate thereof or any other person may at any time have against the beneficiary under any Letter of Credit, Norwest or any Lender or any other Person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by Norwest under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act or omission to act or delay of any kind of Norwest, the Lenders, or any other person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section 7.4(e), constitute a legal or equitable discharge of Borrower's obligations hereunder.

(vii) Without limiting the generality of the foregoing, it is expressly understood and agreed that the absolute and unconditional obligation of Borrower to reimburse disbursements in respect of Letters of Credit will not be excused by the gross negligence or willful misconduct of Norwest. However, the foregoing shall not be construed to excuse Norwest from liability to Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by Borrower that are caused by Norwest's gross negligence or willful misconduct or failure to examine drafts and other documents presented under a Letter of Credit to determine whether such drafts and other documents presented under a Letter of Credit comply with the terms thereof; it is understood that Norwest may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary and, in making any payment under any Letter of Credit (A) Norwest's exclusive reliance on the documents presented to it

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under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (B) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute willful misconduct or gross negligence of Norwest.

(f) Disbursement Procedures. Norwest shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit issued by Norwest. Norwest shall as promptly as possible give telephonic notification, confirmed by telecopy, to Borrower and the Lenders of such demand for payment and whether Norwest has made or will make a disbursement thereunder; provided, however, that any failure to give or delay in giving such notice shall not relieve Borrower of its obligation to reimburse Norwest and the Lenders with respect to any such disbursement in respect of a Letter of Credit or relieve Lenders from their obligation to Advance disbursements under the Letters of Credit.

(g) Interest. If Norwest shall make any disbursement in respect of a Letter of Credit, the unpaid amount thereof shall bear interest for the account of Lenders thereafter as a Floating Interest Rate Advance, unless and until converted to a Eurodollar Advance in accordance with this Agreement.

8. BORROWINGS

8.1. Method of Borrowing. Not later than 10:00 a.m., Phoenix time, on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Phoenix, Arizona to the Agent at its address specified in the Co-Lender Agreement. The Agent will make the funds so received from the Lenders available to the Borrower by deposit into one or more operating

accounts at Norwest designated from time to time by Borrower.

8.2. Method of Selecting Types and Interest Periods for Advances.

(a) The Borrower shall select the Type of Advance by giving the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m., Phoenix time, at least one (1) Business Day before the Borrowing Date for each Floating Interest Rate Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

(i) the Borrowing Date, which shall be a Business Day, of such Advance;

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(ii) the aggregate amount of such Advance; and

(iii) the Type of Advance selected.

The Borrower shall be entitled to obtain only one (1) Advance per Guidance Loan per month and only four (4) Construction Line Advances per month (Eurodollar Advances may only be made on the Eurodollar Advance Date) and only one Advance in any single Business Day. Changes in the rate of interest on that portion of any Advance maintained as a Floating Interest Rate Advance will take effect simultaneously with each change in the Floating Interest Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Eurodollar Interest Period applicable thereto to, but not including, the Eurodollar Advance Date three months thereafter. Changes in the rate of interest on that portion of any Advance maintained as a Eurodollar Advance will take effect on the first Business Day after the expiration of the Eurodollar Interest Period.

(b) Each Borrowing Notice shall be irrevocable and binding on the Borrower and, in respect of the borrowing specified in the Borrowing Notice, the Borrower shall indemnify each Lender against any loss or expense incurred by that Lender as a result of any failure to fulfill the applicable conditions set forth in Sections 8.1 and 8.2 on or before the proposed Borrowing Date specified in the Borrowing Notice, including, without limitation, any loss (including loss of profit) or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund the Loan to be made by that Lender as part of that borrowing when that Loan, as a result of that failure, is not made on that date.

(c) In the event of any prepayment of a Eurodollar Loan or with any conversion of a Eurodollar Loan to a Floating Interest Rate Loan, in either case other than on the last Business Day of the Interest Period for such Eurodollar Loan (including any such prepayment made voluntarily or involuntarily as a result of the acceleration of maturity upon a default or otherwise), Borrower shall also pay (a) all accrued and unpaid interest on the principal being prepaid, (b) all Other Amounts then due, and (c) a premium, if any, equal to the product of (i) the Average Lost Monthly Interest Income and (ii) the number of months from the date of prepayment or conversion to the last Business Day of the Interest Period for such Eurodollar Loan (with any fraction of a month counted as a month), discounted to present value at the Discount Rate over a period equal to one-half of the number of months in clause (ii) above. The maturity date and yield to maturity of Treasury Obligations shall be determined by Agent, on the basis of quotations published in The Wall Street Journal or other comparable sources. Failure of Agent to exercise any option hereunder shall not constitute a waiver of Agent's right to exercise the same in the event of any subsequent prepayment of a Eurodollar Loan or with any subsequent conversion of a Eurodollar Loan to a Floating Interest Rate Loan, in either case other than on the last Business Day of the Interest Period for such Eurodollar Loan (including any such prepayment made voluntarily or involuntarily as a result of the acceleration of maturity upon a default or otherwise).

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8.3. Method of Selecting Types and Interest Periods for Conversion and Continuation of Advances.

(a) Right to Convert. The Borrower may elect from time to time, subject to the provisions of Section 8.4, to convert all or any part of, an Advance of any Type into any other Type or Types of Advances; provided that any conversion of any Advance shall be made effective on, and only on, a Eurodollar Advance Date.

(b) Automatic Conversion and Continuation. Floating Interest Rate Advances shall continue as Floating Interest Rate Advances unless and until such Floating Interest Rate Advances are converted into Eurodollar Advances. Eurodollar Advances shall convert to Floating Interest Rate Advances on the expiration of the Eurodollar Interest Period unless Agent timely receives a Conversion/Continuation Notice (as defined below) from Borrower.

(c) No Conversion in Case of an Event of Default or Unmatured Default. Notwithstanding anything to the contrary contained in Section 8.3(b), no Advance may be converted into or continued as a Eurodollar Advance (except with the consent of the Lenders) when any Event of Default or Unmatured Default has occurred and is continuing. As of the first Business Day on or after the expiration of the Eurodollar Interest Period, after the occurrence of an Event

of Default or Unmatured Default and during the continuance of such Event of Default or Unmatured Default, all Eurodollar Advances shall convert to Floating Interest Rate Advances.

(d) Conversion/Continuation Notice. The Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each continuation of a Eurodollar Advance and each conversion of a Floating Interest Rate Advance to a Eurodollar Advance not later than 10:00 a.m., Phoenix time, on or before three (3) Business Days preceding the expiration of the applicable Eurodollar Interest Period.

8.4. Maximum Number of Eurodollar Advances and Minimum Amount of Each Eurodollar Advance. At no time may Borrower have more than five (5) Eurodollar Advances outstanding. Each Eurodollar Advance shall be in the minimum amount of \$3,000,000 (and in multiples of \$100,000 if in excess thereof). Eurodollar Advances shall be available under the Construction Line from and after the Effective Date, subject to any limitations contained in this Agreement, and Eurodollar Advances will be available under the Guidance Line when Agent and Lenders notify Borrower that Eurodollar Advances under the Guidance Line can be properly administered.

8.5. Rate after Maturity. Notwithstanding anything to the contrary contained herein, any Advance not paid at maturity, whether by acceleration or otherwise, shall bear interest until paid in full at the Default Rate.

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8.6. Method of Payment. All payments of principal, interest and fees hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent by wire transfer of immediately available federal funds pursuant to instructions provided by Agent to Borrower from time to time, by 10:00 a.m., Phoenix time, on the date when due and shall be made ratably among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds which the Agent received. The Agent is hereby authorized to charge any account of the Borrower maintained with Norwest for each payment of principal, interest and fees as it becomes due hereunder. The Agent shall endeavor in good faith to provide telephonic notice to Borrower prior to any such charge, but the Agent shall not be liable to Borrower or any other Person if Agent fails to provide any such notice. If and to the extent payment owed to any Lender is not made by the Borrower to the Agent or that Lender, as the case may be, when due hereunder or under the Note held by that Lender, the Borrower further authorizes such Lender to charge from time to time against any or all of the accounts maintained by the Borrower with the Lender, its subsidiaries, affiliates or branches any amount so due, subject to the provisions of Article 16.

8.7. Notes; Telephonic Notices. The Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Advances, effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person or persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower. All actions taken by the Lenders and the Agent upon such telephonic notices are hereby approved by the Borrower, and the Lenders and the Agent shall incur no liability as a result of any such actions. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice, signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

8.8. Interest Payment Dates: Interest and Fee Basis. Interest accrued on each Advance shall be payable on each Monthly Payment Date (or as otherwise provided herein with respect to the Term Notes), commencing with the first such date to occur after the Effective Date, and on the maturity date of such Advance. Interest on all Loans and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to 10:00 a.m., Phoenix time, at the place of payment. If any payment of principal of, or interest on, an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment.

8.9. Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it

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hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate.

8.10. Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Lender, the proceeds of a Loan or (ii) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been

made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount. With respect to any payments required under this Section from Borrower, interest shall accrue at a rate per annum equal to the interest rate applicable to the relevant Loan, including the Default Rate, if applicable. With respect to any payments required under this Section from any Lender, interest shall accrue at a rate per annum equal to the Federal Funds Effective Rate.

8.11. Unconditional Obligation to Make Payments. To the fullest extent permitted by law, the Borrower shall make all payments hereunder, under the Notes and under all of the other Loan Documents regardless of any defense or counterclaim, including any defense or counterclaim based on any law, rule or policy which is now or hereafter promulgated by any Governmental Authority and which may adversely affect the Borrower's obligations to make, or the right of the holder of any Note to receive, those payments. Borrower shall make all payments under the Loans to Agent for the benefit of Lenders and, upon such payment to Agent, Borrower shall be relieved of liability for such payment to each Lender (subject to any requirement that Agent or such Lender disgorge such payment).

8.12. Advances During Default. Upon the occurrence, and during the continuance, of any Event of Default or Unmatured Default, or at any time that Agent determines from its own inspection that the Lots or Residential Units are not being constructed in substantial compliance with the plans and specifications approved by Agent or within the Bulk Land Budget, Agent shall have the right to take over and complete construction of the Collateral by or through any agent, contractor or subcontractor of its selection and may make Advances and disburse any funds deposited with Agent by Borrower in payment of the costs, expenses, fees, attorneys' fees and other charges, together with reasonable allowances for supervision, incurred in connection with such taking over and completion. In the event proceeds of the Loan and amounts deposited by Borrower are insufficient to pay all of the same, the unpaid amount thereof shall be an indebtedness of Borrower to Lenders, payable immediately upon demand or notice, shall bear interest at the Default Rate, and shall be secured by all of the Collateral. In the absence of an Event of Default or Unmatured Default, the rights of Agent hereunder to take over and complete

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construction shall not mature until ten (10) days after Agent gives notice of its intention to exercise such rights. If, within such ten (10) day period, Borrower commences to cure the construction defects upon which Agent's rights in this Section are predicated and completes the cure within thirty (30) days after Agent's notice of intent to exercise such rights is given, Agent's rights hereunder shall not mature.

8.13. Draw Requests. For each Advance under the Guidance Line, Borrower shall submit to Agent a written draw request on AIA Form G 702 and G 703 or like form (a "Draw Request") signed by the Borrower.

(a) Each Draw Request shall be accompanied by such additional items of information and documentation as Agent may require in its sole and absolute discretion.

(b) Borrower may submit Draw Requests to Agent not more than once in any calendar month for each Guidance Loan (unless Agent agrees to make disbursements more frequently than once a month) and, subject to the terms and conditions of this Agreement, Agent will fund such draw request (subject to Borrower's compliance with the Loan Documents) no later than ten (10) Business Days after Agent's receipt of such complete and accurate Draw Request, including all information and documentation requested by Agent, and Agent will fund such Draw Request (subject to Borrower's compliance with the Loan Documents) only after the Completion Percentage (supported by Check Release Methodology if required by Agent) is verified by Agent. A Draw Request shall not be considered complete and accurate, and Lenders' obligation to fund Advances as to such Draw Request within the time set forth in this Section shall not begin, unless and until such Draw Request includes and is accompanied by all items requested by Agent, which are complete and accurate, and in form and content acceptable to Agent in its reasonable discretion. At Agent's option, but in no event more frequently than once per Calendar Quarter, Borrower shall pay all costs to provide "date down" endorsements to Agent's Title Policies if requested by Agent, in Agent's sole and absolute discretion. Borrower shall use all Advances strictly for the purposes for which they were disbursed by Agent. In the event that Agent desires to make any Advance after an Unmatured Default or Event of Default, Agent may require an ALTA No. 10 full bring-down endorsement to its Title Policy.

(c) Unless Borrower has notified Agent in writing to the contrary, each Draw Request shall constitute Borrower's representation and warranty to Agent that: (a) the Completion Percentage set forth in the Draw Request is true and correct and is supported by Check Release Methodology, evidence of which shall be provided to Agent upon Agent's request in its sole

and absolute discretion; (b) all prior Advances, as well as that currently being requested, were and will be used in compliance with the Bulk Land Budget; and (c) no Event of Default or Unmatured Default has occurred and is continuing.

(d) Together with each Draw Request, Borrower shall deliver to Agent evidence of the Completion Percentage (supported by Check Release Methodology if required by

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Agent in its sole and absolute discretion) and such evidence as Agent may require, in its sole and absolute discretion, to show that all items included in the Draw Request are supported by Check Release Methodology.

(e) Together with each Draw Request, from and after written request by Agent to Borrower, Borrower shall deliver to Agent lien waivers from all contractors, subcontractors and materialmen paid pursuant to the immediately preceding Advance and all prior Advances to the extent not previously provided to Agent.

(f) Borrower acknowledges that (i) Agent may Advance and use Loan proceeds to pay certain fees and expenses of Agent and Lenders in accordance with this Agreement, (ii) for purposes of Advances related to these fees and expenses, Agent is not restricted to the items set forth in the Bulk Land Budget, and (iii) such items may reduce Borrower's allowed Advance pursuant to Borrower's Draw Request.

(g) Any materials covered by a Draw Request must be suitably stored at the construction site or actually incorporated into the Improvements and there shall have been established construction staging and storage areas on the Project site in a manner and location satisfactory to Lender. No disbursement of the Loan shall be made for materials stored at any location other than the Project.

(h) Any Advance made by Agent under any option for disbursement, or so much thereof as Agent may consider proper, may be disbursed to Borrower or its order, or if an Unmatured Default or Event of Default exists and is continuing or Agent has evidence that Borrower is not timely paying its contractors and materialmen, at Agent's election, directly to the persons furnishing labor and/or materials, or to both. Agent shall have no obligation to see that the disbursements made by it to Borrower or any designee of Borrower are actually used to pay for labor and materials furnished for acquisition or development of the Real Estate or Lots, as applicable. Borrower acknowledges that this is its responsibility and Borrower assumes all risks in connection with any disbursement to any such designee.

(i) Agent may withhold from any Advance or, on account of subsequently discovered evidence, withhold from a later Advance, as Agent in its discretion considers necessary to protect Lenders from loss on account of (i) defective work on the Project that has not been remedied, (ii) any obligation required by this Agreement or the Loan Documents to have been performed that has not been performed, (iii) liens filed against the Project, which liens are not being disputed in the manner provided in Section 12.3, (iv) failure of Borrower to make payments to the contractors or contractor's failure to pay subcontractors for material or labor, or (v) a reasonable doubt by Agent that development of the Project can be completed for less than the undisbursed proceeds of the Loan.

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(j) Lenders, from time to time, may make Advances in payment of insurance premiums, taxes, assessments, liens or encumbrances existing against the Collateral, interest accrued and payable upon the applicable Loan, and any charges and expenses that are the obligation of Borrower under this Agreement or any Loan Document and any charges or matters necessary to preserve the Collateral or to cure any Unmatured Default or Event of Default.

(k) In the event of any dispute that, in the good faith opinion of Agent, may endanger the timely completion of the Project or the fulfillment of any condition precedent or covenant herein, Lenders may make Advances for the account of Borrower without prejudice to Borrower's rights, if any, to recover such funds from the party to whom paid. Such agreement or agreements may take any form that Lenders in their reasonable discretion deem proper, including, without limitation, agreements to indemnify a title insurer against possible assertion of lien claims and agreements to pay disputed amounts to contractors in the event Borrower is unable or unwilling to pay the same. All sums paid or agreed to be paid pursuant to such agreement shall be for the account of Borrower and shall be charged as an Advance.

(l) Although Lenders shall have no obligation to make any Advance unless and until all of the conditions and prior performances set forth herein have been kept, fulfilled or performed, and until all inspections, certifications, releases, waivers, or other requirements set forth in this Agreement have been made, delivered and complied with, Lenders, at their sole discretion, may make Advances prior to that time without waiving or releasing any of the requirements or conditions of this Agreement, but Borrower shall continue to be strictly obligated and subject thereto, and all such conditions, prior performances and other requirements shall nevertheless be strictly and punctually complied with, fulfilled and performed; and, notwithstanding any such

disbursement, Lenders, at their discretion, may discontinue any further Advances at any time until all of the conditions, prior performances and other requirements of this Agreement have been strictly fulfilled, performed and complied with.

(m) Borrower shall have no right to any Advance other than to have the same disbursed by Lenders in accordance with one or more of the disbursement provisions contained in this Agreement. Any assignment or transfer, voluntary or involuntary, of this Agreement or any Loan or any right hereunder or thereunder shall not be binding upon or in any way affect Lenders without their written consent; Lenders may make Advances under one or more of the disbursement provisions herein, notwithstanding any such assignment or transfer.

(n) In the event that the applicable Loan amount or so much thereof as Lenders are obligated to Advance is not sufficient in Agent's sole judgment to pay all costs contained in the Bulk Land Budget, or other costs necessary to complete the Project, Borrower shall be solely responsible to provide sufficient funds to pay all costs not advanced by Lenders, and within three days of demand of Agent, Borrower shall deposit with Agent the amount of funds estimated by Agent to be necessary to complete the Project to be disbursed under the terms hereof before any

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further Advances under the Loan. Failure to make the deposit required by Agent within three days after notice to Borrower from Agent shall be an Event of Default hereunder.

(o) Advances under the Guidance Line will only be available for acquisition of Real Estate and certain engineering, land planning, permitting and other approved "soft costs" until such time as a plat of subdivision approved by Agent has been recorded in the official records of the county where the Real Estate is located.

8.14. Disbursements to Other Parties. Agent may, but shall not be obligated to, make disbursements directly to any contractor, subcontractors, laborers or material suppliers if an Event of Default or Unmatured Default exists or upon the filing of a mechanics' or materialmen's lien against any Collateral, which is not being contested by Borrower in accordance with Section 12.3 or bonded over or insured over by the title insurer.

9. CHANGE IN CIRCUMSTANCES

9.1. Yield-Protection. If any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, or the compliance of any Lender therewith:

(a) subjects any Lender to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding federal taxation of the overall net income of any Lender), or changes the basis of taxation of payments to any Lender in respect of its Loans or other amounts due it hereunder; or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender; or

(c) imposes any other condition the result of which is to increase the cost to any Lender of making, funding or maintaining loans or reduces any amount receivable by any Lender in connection with loans, or requires any Lender to make any payment calculated by reference to the amount of loans held or interest received by it, by an amount deemed material by such Lender, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or reduction in amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Aggregate Commitment.

9.2. Changes in Capital Adequacy Regulations. If a Lender determines the amount of capital required or expected to be maintained by such Lender, or any corporation controlling such Lender, is increased as a result of a Change in Law, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any

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shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy).

9.3. Availability of Types of Advances. If any Lender determines that maintenance of its Eurodollar Loans would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Agent determines that (i) Eurodollar Loans are not available or (ii) the interest rate applicable to a Eurodollar Loan does not accurately reflect the cost of making or maintaining such Advance, then the Agent shall suspend the

availability of the Eurodollar Loans and convert all such Eurodollar Loans to Floating Interest Rate Loans on the next succeeding Eurodollar Advance Date.

9.4. Lender Statements; Survival of Indemnity. Each Lender shall deliver a written statement of such Lender as to the amount due, if any, under Sections 9.1 or 9.2. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though each Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under Sections 9.1 and 9.2 shall survive payment of the Obligations and termination of this Agreement.

10. REAL ESTATE COLLATERAL

10.1. First Mortgages. As security for the payment and performance of the Obligations, on the Effective Date and prior to making any Advance secured by such Collateral, Borrower shall execute and deliver to Agent First Mortgages, subject only to the Permitted Exceptions, of all Real Estate, Residential Units and Lots which are intended to be Collateral for the Obligations. To the extent permitted by the optionor under any Option Contract, Borrower shall execute and deliver to Agent, Mortgages of all Lots and Residential Units subject to such Option Contract. The Mortgages shall be in form satisfactory to Agent. It is understood by the parties that the forms of Mortgages and amendments thereto, may vary on a state by state basis.

10.2. Title Insurance or Commitment. On the Effective Date, Borrower, at its sole cost and expense, shall cause to be delivered to Agent one or more Title Policies. Lots and Residential Units for which a Title Policy is to be issued shall be eligible for being included in the Collateral Base upon receipt by Agent of an irrevocable commitment by the title insurance company to promptly issue the Title Policy or an endorsement to the existing Title Policy

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insuring the validity and first lien priority, subject only to the Permitted Exceptions, of the First Mortgage with respect to such Lot or Residential Unit.

10.3. Appraisal Requirements.

(a) Prior to making any Guidance Loan, Agent shall obtain, at Borrower's sole cost and expense, and Lenders shall approve an appraisal setting forth the as-developed bulk wholesale Appraised Value of all Lots or Real Estate to be included in such Guidance Loan.

(b) Agent may from time to time, but not more frequently than once in any calendar year at the cost of Borrower, during the term of this Agreement, obtain appraisals setting forth the Appraised Value of each type of Base Plan that Borrower then constructs in the Projects, of each Approved Upgrade, and of all Lots or Real Estate subject to a Guidance Loan.

(c) Prior to the time that Borrower intends to include a Model Home in the Collateral Base, Borrower shall notify Agent thereof and Agent shall obtain, at Borrower's sole cost and expense, and Lenders shall approve an appraisal setting forth the as-is Appraised Value of such Model Home for purposes of inclusion in the Collateral Base.

(d) Borrower and its Affiliates shall not employ or otherwise engage or contact any Appraiser that prepares an appraisal for any of the Collateral. Agent may employ a staff appraiser or a fee appraiser. Subject to Section 10.3(b), Borrower shall reimburse Agent at Agent's cost for a fee appraiser and at Agent's standard scheduled rates for a staff appraiser.

10.4. Flood Report. As a condition precedent to including any Lot or Residential Unit under a Guidance Loan or the Construction Line, Agent shall have determined, in its sole and absolute discretion, that (a) the Real Estate, Lot or Residential Unit is located in an area designated by the Department of Housing and Urban Development as not having special flood hazards, or (b) if the Real Estate, Lot or Residential Unit is located in an area designated by the Department of Housing and Urban Development as having special flood or mudslide hazards, the community in which the Real Estate, Lot or Residential Unit is located is participating in the National Flood Insurance Program and Borrower has provided to Agent evidence of satisfactory insurance.

10.5. Releases.

(a) Each Mortgage executed and delivered by the Borrower to the Agent hereunder shall provide that, so long as no Event of Default or Unmatured Default shall have occurred and be continuing, the Agent shall execute and deliver, or cause the trustee to execute and deliver, partial releases of liens so that the purchasers may obtain title to any Real Estate, Lot or

Residential Unit free and clear of the applicable First Mortgage. The delivery of such releases will be made to escrow agents satisfactory to Agent to insure that, upon the close of the sale of

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any Real Estate, Lot or Residential Unit, the agreed release price or Total Draws for such Real Estate, Lot or Residential Unit is transmitted directly to Agent from each closing for repayment of Advances hereunder. The release price for any Real Estate shall be agreed upon by Lenders and Borrower in connection with each Guidance Loan and included in the Guidance Loan Addendum; the release price for each Lot shall be the Lot Release Price or Lot Option Price, as applicable; and the release price for each Residential Unit shall be the amount of the Total Draws made with respect to the Residential Unit to be released. At the first Advance after Borrower includes any Lot subject to a First Mortgage in the Collateral Base, Lenders shall make an Advance under the Construction Line in the amount of the applicable Lot Release Price which will be applied to the outstanding principal balance of the Guidance Loan with respect to such Lot.

(b) In addition, from time to time upon Borrower's request, Agent will release its lien on any unsold Unit or Model Home designated by Borrower concurrent with receipt of payment of the Total Draws made with respect to such Residential Unit. Agent shall have no obligation to release any Residential Unit from the lien of the First Mortgage if there exists an Event of Default or an Unmatured Default; provided, however, that Agent shall release the lien of its First Mortgage after the occurrence of an Event of Default or Unmatured Default on any Presold to be conveyed to a bona fide third party purchaser under a Purchase Contract entered into prior to the occurrence of said Event of Default or Unmatured Default if Agent receives all of the Net Proceeds payable to Borrower upon such sale and the Net Proceeds exceed the Total Draws made with respect to such Residential Unit.

11. REPRESENTATIONS AND WARRANTIES

The entities comprising the Borrower jointly and severally represent and warrant to each of the Lenders that:

11.1. Organization, Powers, etc. Each Borrower (i) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, (ii) has the corporate power and corporate authority to own or hold the properties it purports to own or hold and to carry on its business as now conducted, (iii) is duly qualified or licensed to transact business in every jurisdiction in which such qualification or licensing is necessary to enable it to enforce all of its material contracts and other material rights and to avoid any material penalty or forfeiture, or the failure to so qualify or be licensed would otherwise have a Material Adverse Effect.

11.2. Authorization and Validity of this Agreement. etc. Each Borrower has the corporate power and corporate authority to execute and deliver this Agreement, the Notes and the other Loan Documents and to perform all its obligations hereunder and thereunder. The execution and delivery by each of the entities comprising the Borrower of this Agreement, the Notes and the other Loan Documents and the performance by the Borrower of all its obligations

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hereunder and thereunder and any and all actions taken by the Borrower (i) have been duly authorized by all requisite corporate action, (ii) will not violate or be in conflict with (a) any provisions of law (including, without limitation, any applicable usury or similar law), (b) any order, rule, regulation, writ, judgment, injunction, decree or award of any court or other agency of government, or (c) any provision of its certificate or articles of incorporation or by-laws, (iii) will not violate, be in conflict with, result in a breach of or constitute (with or without the giving of notice and/or the passage of time) a default under any material indenture, agreement or other instrument to which it is a party or by which it or any of its properties or assets is or may be bound, and (iv) except as otherwise contemplated by this Agreement, will not result in the creation or imposition of any lien, charge or encumbrance upon, or any security interest in, any of its properties or assets. This Agreement, the Notes and the other Loan Documents have been duly executed and delivered by the Borrower. The Loan Documents constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general principles of equity.

11.3. Financial Statements.

(a) Borrower has provided to the Lenders the combined balance sheet of the Obligated Group and its Subsidiaries as of December 31, 1995, and the related combined statements of earnings, stockholders' equity and cash flows for the year ended on that date, audited and reported upon by KPMG Peat Marwick LLP, independent certified public accountants (the "Audited Financial Statements"). The Audited Financial Statement and the related notes and schedules (if any) (i) were prepared in accordance with GAAP consistently applied throughout the respective periods covered thereby, (ii) present fairly the combined financial condition of the Obligated Group and its Subsidiaries as of the respective dates thereof, (iii) show all material Liabilities, direct or

contingent, of the Obligated Group and its Subsidiaries as of those dates (including, without limitation, Liabilities for taxes and material commitments), and (iv) present fairly the combined results of operations of the Obligated Group and its Subsidiaries for the respective periods covered thereby.

(b) Borrower has provided to the Lenders the combined balance sheet of the Obligated Group and its Subsidiaries as of September 30, 1996, and the related combined statements of earnings, stockholders' equity and cash flows for the 9-month period ended on that date (the "Unaudited Financial Statements"). The Unaudited Financial Statement (i) were prepared in accordance with GAAP consistently applied throughout the respective periods covered thereby, (ii) present fairly the combined financial condition of the Obligated Group and its Subsidiaries as of the respective dates thereof, (iii) show all material Liabilities, direct or contingent, of the Obligated Group and its Subsidiaries as of those dates (including, without limitation, Liabilities for taxes and material commitments), and (iv) present fairly the combined results of operations of the Obligated Group and its Subsidiaries for the respective periods covered thereby.

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11.4. No Material Adverse Effect. Since the date of the Audited Financial Statements, no Event has occurred that has had or could reasonably be expected to have a Material Adverse Effect. There are no material unrealized or expected losses in connection with loans, advances and other commitments of the Borrower.

11.5. Title to Properties. Exhibit "F" attached hereto and incorporated herein by this reference, contains a complete and accurate list of all Real Estate owned by the Borrower and its Subsidiaries, except those properties acquired or disposed of by the Borrower or its Subsidiaries after November 30, 1996 in the ordinary course of business. The Borrower and its Subsidiaries have good and marketable fee title to such Real Estate and to all the other assets owned by them and either reflected on the balance sheet and related notes and schedules most recently delivered by the Borrower to the Lenders (the "Recent Balance Sheet") or acquired by them after the date of that balance sheet and prior to the Effective Date, except for those properties and assets which have been disposed of since the date of that balance sheet or which no longer are used or useful in the conduct of their business. All such Real Estate and other assets owned by the Borrower and its Subsidiaries are free and clear of all Mortgages, pledges, liens, charges and other encumbrances, except for the liens and security interests of Agent hereunder.

11.6. Litigation. There is no action, suit, proceeding, arbitration, inquiry or investigation (whether or not purportedly on behalf of the Borrower) pending or, to the best knowledge of Borrower, threatened against or affecting the Borrower or any of the Subsidiaries which could reasonably be expected to have a Material Adverse Effect. The Borrower is not in default with respect to any final judgment, writ, injunction, decree, rule or regulation of any Governmental Agency, which default would or could have a Material Adverse Effect on the Borrower. The Borrower has no material contingent obligations not provided for or disclosed in the Audited Financial Statements.

11.7. Payment of Taxes. Borrower and its Subsidiaries have filed all federal, state and local tax returns with respect to the operations of the Borrower and its Subsidiaries which are required to be filed, including federal tax returns for the fiscal year ended December 31, 1995, and all prior fiscal years of the Borrower and its Subsidiaries, except where extensions of time to make those filings have been granted by the appropriate taxing authorities and the extensions have not expired. The Borrower has paid or caused to be paid to the appropriate taxing authorities all taxes as shown on those returns and on any assessment received by any of them, to the extent that those taxes have become due, except for taxes the failure to pay which do not violate the provisions of Section 12.3 hereof.

11.8. Agreements. Neither the Borrower nor any Subsidiary is a party to any agreement or instrument or is subject to any charter or other restriction that could reasonably be expected to have a Material Adverse Effect on it. Neither the Borrower nor any Subsidiary is in material default in the performance, observance or fulfillment of any of the obligations, covenants or

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conditions contained in any material agreement or instrument to which it is a party and consummation of the transactions will not cause any Borrower to be in material default thereof.

11.9. Foreign Direct Investment Regulations. Neither the making of the Advances nor the repayment thereof nor any other transaction contemplated hereby will involve or constitute a violation by the Borrower of any provision of the Foreign Direct Investment Regulations of the United States Department of Commerce or of any license, ruling, order, or direction of the Secretary of Commerce thereunder.

11.10. Federal Reserve Regulations.

(a) The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U or

Regulation X of the Board of Governors of the Federal Reserve System of the United States). Margin stock (as defined in Regulation U) constitutes less than 25% of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

(b) No part of the proceeds of any of the Advances will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock. If requested by the Lenders, the Borrower shall furnish to the Lenders a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U of said Board of Governors. No part of the proceeds of the Advances or any Letter of Credit will be used for any purpose that violates, or which is inconsistent with, the provisions of Regulation X of said Board of Governors.

11.11. Consents, etc. No order, license, consent, approval, authorization of, or registration, declaration, recording or filing with, or validation of, or exemption by, any Governmental Authority is required in connection with, or as a condition precedent to, the due and valid execution, delivery and performance by Borrower of this Agreement, the Notes or the other Loan Documents, or the legality, validity, binding effect or enforceability of any of the respective terms, provisions or conditions thereof. To the extent that any franchises, licenses, certificates, authorizations, approvals or consents from any Governmental Authority are required for the acquisition, ownership, operation or maintenance by the Borrower of properties now owned, operated or maintained by it, those franchises, licenses, certificates, authorizations, approvals and consents have been validly granted, are in full force and effect and constitute valid and sufficient authorization therefor.

11.12. Compliance with Applicable Laws. The Borrower and its Subsidiaries are in compliance with and conform to all statutes, laws, ordinances, rules, regulations, orders, restrictions and all other legal requirements of any Governmental Authority having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, the

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violation of which would have a Material Adverse Effect, including, without limitation, regulations of the Board of Governors of the Federal Reserve System and the Federal Interstate Land Sales Full Disclosure Act. Neither the Borrower nor any Subsidiary has received any notice to the effect that its operations are not in material compliance with any of the requirements of applicable federal, state and local environmental, health and safety statutes and regulations or the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment.

11.13. Relationship of the Borrower. The entities comprising the Borrower are engaged as an integrated group in the business of owning, developing and selling Real Estate, Lots and Residential Units and of providing the required services, credit and other facilities for those integrated operations. The Borrower requires financing on such a basis that funds can be made available from time to time to such entities, to the extent required for the continued successful operation of their integrated operations. The Advances to be made to the Borrower under this Agreement are for the purpose of financing the integrated operations of the Borrower, and each of the entities comprising the Borrower expects to derive benefit, directly or indirectly, from the Advances, both individually and as a member of the integrated group, since the financial success of the operations of each Borrower is dependent upon the continued successful performance of the integrated group as a whole.

11.14. Subsidiaries. Exhibit "G" attached hereto and incorporated herein by this reference, contains a complete and accurate list of all Subsidiaries, including (a) its state of incorporation or formation, (b) all jurisdictions (if any) in which it is qualified to transact business as a foreign Person, (c) the number of units of beneficial interest outstanding, and, (d) the number and percentage of those units of beneficial interest owned by each Borrower and/or by any other Subsidiary. All the outstanding beneficial interests of each Subsidiary are validly issued, fully paid and nonassessable. All of the beneficial interests of each Subsidiary owned by the Borrower are owned free and clear of all liens, pledges, security interests, equity or other beneficial interests, charges and encumbrances of any kind whatsoever. None of the entities comprising the Borrower owns of record or beneficially any shares of the capital stock of any corporation (other than the Subsidiaries) that is not a Borrower.

11.15. ERISA. The Borrower is not executing or delivering any of the Loan Documents or entering into any of the transactions contemplated hereby, directly or indirectly, in connection with any arrangement or understanding in any respect involving any "employee benefit plan" with respect to which the Borrower is a "party in interest" within the meaning of the Employee Retirement Income Security Act of 1974, or a "disqualified person", within the meaning of the Internal Revenue Code 1986, as amended. No Unfunded Liabilities exist with respect to any Single Employer Plans. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred with respect to any Plan, neither the Borrower nor any other members of the Controlled Group has withdrawn from any Plan or initiated steps

to do so, and no steps have been taken to reorganize or terminate any Plan.

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11.16. Investment Company Act. Neither the Borrower nor any Subsidiary thereof is an "investment company" or a company "controlled" by an "investment company", within the meaning of The Investment Company Act of 1940, as amended.

11.17. Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

11.18. Subordinated Debt. The Obligations constitute senior indebtedness which is entitled to the benefits of the subordination provisions of all outstanding Subordinated Debt.

11.19. Post-Retirement Benefits. Borrower and its Subsidiaries have no obligation to pay post-retirement medical and insurance benefits to its employees and former employees

11.20. INTENTIONALLY DELETED.

11.21. Environmental Representations. To the best of the Borrower's knowledge and belief, no Hazardous Substances in violation of any Environmental Laws are present upon any of the Real Estate, Lots or Residential Units owned by Borrower or any of the Collateral which are encumbered by any Mortgage held by Borrower, and the Borrower has not received any notice to the effect that any of the Real Estate, Lots or Residential Units owned by Borrower or any its operations are not in compliance with any of the requirements of applicable Environmental Laws or are the subject of any federal or state investigation evaluating whether any remediation is needed to respond to a release of any Hazardous Substance into the environment which, in either case, could be reasonably expected to have a Material Adverse Effect.

11.22. No Misrepresentation. No representation or warranty contained herein or made hereunder and no certificate, schedule, exhibit, report or other document provided or to be provided in connection with the transactions contemplated hereby (including, without limitation, the negotiation of and compliance with the Loan Documents) contains or will contain a misstatement of a material fact or omit to state a material fact required to be stated therein in order to make the statements contained therein, in the light of the circumstances under which made, not misleading.

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12. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that from the Effective Date until payment in full of all the Obligations and the termination of all Letters of Credit and Commitments of Lenders, the Borrower will, and will cause each of its Subsidiaries to:

12.1. Existence, Properties, etc. Do or cause to be done all things or proceed with due diligence with any actions or courses of action which may be necessary to preserve and keep in full force and effect its existence under the laws of their respective states of incorporation and all qualifications or licenses in jurisdictions in which such qualification or licensing is required for the conduct of its business or in which the Lenders shall request such qualification; provided, however, that nothing herein shall be deemed to prohibit any Borrower from (i) merging into or consolidating with any other Borrower or (ii) consummating the Merger. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted. The primary business of the Borrower and the Subsidiaries shall at all times be the acquisition, development, management, rental and/or sale of real estate assets.

12.2. Notice. Give prompt written notice to the Agent of (i) any proceeding instituted by or against the Borrower or any of the Subsidiaries by any Governmental Authority, which, if adversely determined, could reasonably be expected to have a Material Adverse Effect on the Borrower, and (ii) any other Event which may lead to or result in a Material Adverse Effect on the Borrower, or which, with or without the giving of notice and/or the passage of time, would constitute an event of default or a default under any material agreement other than this Agreement to which the Borrower is a party or by which any of its properties or assets is or may be bound.

12.3. Payments of Debts, Taxes, etc. Pay all its debts and perform all its obligations promptly and in accordance with the respective terms thereof, and pay and discharge or cause to be paid and discharged promptly all taxes, assessments and governmental charges or levies imposed upon the Borrower or upon its incomes or receipts or upon any of its properties before the same shall become in default or past due, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might result in the imposition of a lien or charge upon such properties or any part thereof; provided, however, that it shall not constitute a violation of the provisions of this Section 12.3 if

the Borrower shall fail to perform any such obligation or fail to pay any such debt (except for obligations for money borrowed), tax, assessment, governmental charge or levy or claim for labor, materials or supplies which is being contested in good faith in a normal and customary manner (including litigation, if appropriate,) and diligently pursued, and as to which adequate reserves have been provided in accordance with GAAP. Borrower acknowledges and agrees that upon the occurrence of an Unmatured Default or Event of Default and during the continuance thereof, Borrower shall make, when required by Agent,

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monthly deposits into an account with Norwest which account shall be subject to the control of Agent, of a sum equal to one-twelfth (1/12th) of the yearly taxes and assessments which may be levied against the Projects or Borrower, including, without limitation, any sales or use taxes in any state, and local privilege, sales, use or excise taxes based on gross revenues and the annual premiums, to become due for all insurance policies required hereunder. The amount of such taxes, assessment and premiums, when unknown, shall be estimated by Agent. Any insufficiency of such account to pay such charges as aforesaid shall be paid by Borrower to Agent on demand

12.4. Accounts and Reports. Maintain a standard system of accounting established and administered in accordance with GAAP, and provide to the Lenders the following:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower (commencing with the fiscal year ending December 31, 1996), combined (prior to the Merger) and consolidated (after the Merger) and consolidating balance sheets of the Obligated Group and its Subsidiaries as of the end of that fiscal year and the related consolidated and consolidating statements of earnings, stockholders' equity and cash flows for that fiscal year, all with accompanying notes and schedules, setting forth, in each case, in comparative form, the corresponding figures for the preceding year, all in reasonable detail and prepared in accordance with GAAP consistently applied and audited and reported upon by KPMG Peat Marwick LLP or another national firm of independent certified public accountants of recognized standing selected by the Borrower and reasonably acceptable to the Agent (such audit report shall be unqualified except for qualifications relating to changes in GAAP and required by the Borrower's independent certified public accountants);

(b) Prior to the Merger, as soon as available and in any event within 30 days after the end of each month of Borrower's fiscal year (commencing with the month ending October 31, 1996), combined balance sheets of the Obligated Group and its Subsidiaries, the related combined statement of stockholders' equity of the Obligated Group and its Subsidiaries, as of the end of that month, and for the period from the beginning of the fiscal year to the end of that month, setting forth, in each case, in comparative form, the corresponding figures for the preceding year, all in reasonable detail and prepared in accordance with GAAP consistently applied, unaudited but certified to be true and accurate, subject to normal year-end audit adjustments, by the chief financial officer of each member of the Obligated Group;

(c) as soon as available and in any event within 60 days after the end of each quarter of Borrower's fiscal year (commencing with the quarter ending September 30, 1996), combined (and after the Merger, consolidated) balance sheets of the Obligated Group and its Subsidiaries, the related combined (and after the Merger, consolidating) statement of stockholders' equity of the Obligated Group and its Subsidiaries, as of the end of that quarter, and the related consolidating statements of earnings and cash flows of the Obligated Group and its Subsidiaries for that quarter and for the period from the beginning of the fiscal year to the end of

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that quarter, setting forth, in each case, in comparative form, the corresponding figures for the preceding year, all in reasonable detail and prepared in accordance with GAAP consistently applied, unaudited but certified to be true and accurate, subject to normal year-end audit adjustments, by the chief financial officer of each member of the Obligated Group;

(d) concurrently with the delivery of the financial statements described in subsections (b) and (c) above, a certificate signed by the President or Executive Vice President and the Chief Financial Officer of each member of the Obligated Group to the effect that, having read this Agreement, and based upon an examination which they deemed sufficient to enable them to make an informed statement, there does not exist any Event of Default or Unmatured Default, or if such Event of Default or Unmatured Default has occurred, specifying the facts with respect thereto;

(e) as soon as available and in any event within 30 days after the end of each calendar month of Borrower's fiscal year (commencing with the month ending November 30, 1996), a monthly sales report of all activity during the preceding calendar month, in the form presently provided to Lenders in connection with the Existing Loans, or as otherwise reasonably required by Agent;

(f) as soon as available and in any event within 60 days after the end of each calendar quarter of Borrower's fiscal year (commencing with the calendar quarter ending September 30, 1996) a schedule of all Real Estate, Lots

and Residential Units owned by the Borrower by Project;

(g) within 60 days prior to each fiscal year of the Borrower (commencing with the fiscal year beginning January 1, 1998) a projection, in reasonable detail and in form and substance satisfactory to the Agent, on a quarterly basis of the cash flow and of the earnings of the Obligated Group for such fiscal year, together with gross and net margin analysis of each Project by quarter;

(h) as soon as available and in any event within 60 days after the end of each quarter of Borrower's fiscal year (commencing with the quarter ending March 31, 1997), a copy of the Obligated Group's quarterly report on Form 10-Q filed with the Securities and Exchange Commission;

(i) as soon as available and in any event within 120 days after the end of Borrower's fiscal year (commencing with the fiscal year ending December 31, 1996), a copy of the Obligated Group's annual report on Form 10-K filed with the Securities Exchange Commission;

(j) within forty-eight (48) hours after filing with the Securities Exchange Commission, a copy of any report filed on Form 8K;

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(k) except as otherwise provided in subsections (h), (i) and (j) above, promptly upon becoming available, copies of all financial statements, reports, notices and proxy statements sent by any number of the Obligated Group to its stockholders, and of all regular and periodic reports and other material (including copies of all registration statements and reports under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended) filed by any number of the Obligated Group with any securities exchange or any Governmental Authority, except material filed with Governmental Authorities relating to the development of Lots and Residential Units in the ordinary course of the business of the Borrower and which does not disclose any Material Adverse Effect on the affairs of the Borrower;

(l) On or before fifteen (15) days after filing, a copy of the Obligated Group's annual federal corporate income tax return, and, if such federal corporate income tax return is not filed on or before April 15, then, on or before May 1, a copy of the Request for Extension Form, as filed.

(m) as soon as possible and in any event within ten (10) days after the Borrower knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by the Chief Financial Officer of the Borrower, describing said Reportable Event and the action that the Borrower proposes to take with respect thereto;

(n) as soon as possible and in any event within ten (10) days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by any member of the Obligated Group or any of its Subsidiaries, that, in either case, could reasonably be expected to have a Material Adverse Effect;

(o) promptly upon the request of the Agent or any Lender, an accurate legal description of any Real Estate of Lots included under a Guidance Loan or any Units included in the calculation of the Collateral Base;

(p) such supplements to the aforementioned documents and additional information (including, without limitation, leasing, occupancy and non-financial information) and reports as the Agent or any Lender may from time to time reasonably require;

12.5. Access to Premises and Records. At all reasonable times during normal business hours and as often as any Lender may reasonably request, permit authorized representatives and agents designated by that Lender to (i) have access to the premises of the Borrower and each Subsidiary and to their respective corporate books and financial records, and all other records relating to their respective operations and procedures, (ii) make copies of or excerpts from those

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books and records and (iii) upon reasonable notice to the Borrower, discuss the respective affairs, finances and operations of the Obligated Group with, and to be advised as to the same by, their respective officers and directors.

12.6. Maintenance of Properties and Insurance. Maintain all its properties and assets in good working order and condition and make all necessary repairs, renewals and replacements thereof so that its business carried on in connection therewith may be properly conducted at all times; and maintain or require to be maintained at its expense, and furnish to Agent (i) a policy or policies of comprehensive general liability insurance with coverage in an amount not less than \$1,000,000 per occurrence and \$2,000,000 general aggregate, together with "umbrella" excess liability insurance in an amount not less than \$5,000,000 (and during any period of development or work upon the Property,

contractor's and independent contractor's liability and workers' compensation insurance in an amount not less than \$1,000,000) to protect Lenders and Borrower against liability for personal injury and property damage, including coverage for contractual liability, employees (to the extent not covered by workers' compensation insurance), and underground property damage, and completed operations; (ii) flood insurance acceptable to Agent, unless Agent shall have received satisfactory evidence, which may be in the form of a letter from the appropriate agent of the National Flood Insurance Association or an appropriate Governmental Authority that no portion of the Project is located in an area designated by the Secretary of Housing and Urban Development as having special flood hazards; (iii) a so-called Builder's Risk Completed Value nonreporting form of policy, with an ISO special form or other form that provides equivalent or better coverage attached and endorsements to cover demolition expenses and increased cost of development/construction for one hundred percent (100%) of the insurable replacement value of the Project without reduction for depreciation; (iv) workers' compensation insurance as required by law; and (v) such other insurance as Agent shall reasonably require. Each such insurance policy shall have premiums prepaid through one quarter of one year from the date hereof (and thereafter Borrower shall prepay one quarter of one year's premium quarterly), be with companies satisfactory to Agent with such other coverage and in such amounts as Agent may request, contain the New York Standard Noncontributory Mortgagee clause or an equivalent mortgagee's loss payable clause appropriate for the type of policy and satisfactory to Agent, and be endorsed in favor of Agent and provide that it may not be canceled or amended by any party for any reason whatsoever without first giving Agent at least thirty (30) calendar days prior written notice of any proposed cancellation or amendment.

12.7. Compliance with Applicable Laws. Promptly and fully comply with, conform to and obey all present and future laws, ordinances, rules, regulations, orders, writs, judgments, injunctions, decrees, awards and all other legal requirements applicable to the Borrower, its Subsidiaries and their respective properties, including Regulation Z of the Board of Governors of the Federal Reserve System and the Federal Interstate Land Sales Full Disclosure Act, the violation of which would have a Material Adverse Effect on the Borrower.

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12.8. Change in Collateral. Give the Agent immediate notice of any material change in the status of the Collateral.

12.9. Use of Proceeds. Use the proceeds of the Advances for the purposes provided herein and for no other purposes.

13. NEGATIVE COVENANTS

The Borrower covenants and agrees that from the Effective Date until payment in full of all the Obligations and termination of all Letters of Credit and Commitment of Lender, unless the Lenders otherwise shall consent in writing as provided in Section 17.1 hereof, Borrower will not, either directly or indirectly:

13.1. Minimum Adjusted Tangible Net Worth. Permit the consolidated Adjusted Tangible Net Worth of the Obligated Group determined as of the end of each quarter of Borrower's fiscal year to be less than the sum of (a) \$7,000,000 prior to the Merger and \$25,000,000 after the Merger and (b) fifty percent (50%) of Consolidated Net Income for each fiscal quarter of the Obligated Group (commencing with Borrower's fiscal quarter ending March 31, 1997 and ending with the fiscal quarter immediately preceding the date of determination) in which Consolidated Net Income is positive (without offset for any fiscal quarter in which the Obligated Group's Consolidated Net Income is negative). MHA II, and Monterey Homes Arizona, Inc. and Monterey Homes Arizona I, Inc., after each assumes the Obligations of the Borrower hereunder, shall advance to MHC II, or Monterey Homes Construction, Inc. and Monterey Homes Construction I, Inc., respectively, after each assumes the Obligations of the Borrower hereunder, all of the quarterly Net Income attributable to MHA II, Monterey Homes Arizona, Inc. and Monterey Homes Arizona I, Inc. as Subordinated Debt in a form satisfactory to Agent.

13.2. Minimum Liquidity. Permit the unrestricted cash and unrestricted Cash Equivalents of the Obligated Group, plus the restricted Cash Equivalents subject to any Securities Pledge Agreement, plus the available (assuming that all conditions to such Advances have been satisfied), but undrawn, Advances under the Construction Line, determined as of the end of each quarter of Borrower's fiscal year, to be less than (a) prior to the Merger, \$1,000,000, and (b) after the Merger, the greater of (i) the then outstanding principal balance of the Term Loan or (ii) \$2,000,000.

13.3. Maximum Leverage. Permit the ratio of (a) the Obligated Group's consolidated Liabilities, minus Subordinated Debt to (b) Adjusted Tangible Net Worth, to be greater than 5.0 to 1.0 prior to the Merger, and, after the Merger, to be greater than 2.5 to 1.0 as of the end of the first three fiscal quarters of each fiscal year of Borrower and to be greater than 2.25 to 1.0 as of the end of the fourth fiscal quarter of each fiscal year of Borrower, determined as of the end of each fiscal quarter of Borrower's fiscal year.

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13.4. Minimum Debt Coverage. Permit the ratio of the Obligated Group's

consolidated EBITDA to total interest incurred, to be less than 1.5 to 1.0, determined as of the end of each fiscal quarter of Borrower's fiscal year for the immediately preceding four fiscal quarters.

13.5. Guaranties. Make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary or joint venture) or otherwise assume, guarantee or in any way become contingently liable or responsible for obligations of any other Person, whether by agreement to purchase those obligations of any other Person, or by agreement for the furnishing of funds through the purchase of goods, supplies or services (whether by way of stock purchase, capital contribution, advance or loan) for the purpose of paying or discharging the obligations of any other Person, except for: (a) guaranties of obligations of another Borrower issued in the ordinary course of business; (b) the endorsement of negotiable instruments in the ordinary course of business; and (c) guaranties of performance and completion and performance and completion bonds issued in connection with the development and construction of Real Estate, Lots and Residential Units owned by the Borrower.

13.6. Sale of Assets; Acquisitions; Merger.

(a) Do either of the following:

(i) sell any single asset that is Collateral with a book value of \$1,000,000 or more or

(ii) sell or dispose of assets with an aggregate book value of \$5,000,000 or more, other than in the ordinary course of business, in any single calendar year unless approved in connection with any Guidance Loan.

(b) Do any of the following:

(i) sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of the assets (whether now owned or hereafter acquired) of any member of the Obligated Group and the Subsidiaries (on a consolidated basis);

(ii) merge into or consolidate with any other Person or permit any other Person to merge into or consolidate with it, except pursuant to the Merger or where such member of the Obligated Group will be the surviving entity and the then existing management of such member of the Obligated Group will continue to control the management and operations of the merged entity, or as otherwise provided in Section 13.6(a) above; or

(iii) dissolve, liquidate or wind up its business by operation of law or otherwise.

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(c) Engage in any business other than the acquisition, development, management, rental and/or sale of residential real estate assets.

Nothing contained in this Section 13.6, however, shall restrict any sale of assets between the entities comprising the Borrower which is in compliance with all other provisions of this Agreement.

13.7. INTENTIONALLY DELETED

13.8. Dividends and Distributions. Declare or pay any dividends with respect to the Borrower's capital stock or apply any of its assets to the purchase, redemption or other retirement of, or set apart any sum for the payment of, or make any distribution by reduction of capital or otherwise in respect of, any of the shares of the Borrower's capital stock.

13.9. Subordinated Debt. Directly or indirectly make any payment of principal or interest with respect to any Subordinated Debt prior to the date the same is due, or amend or modify the terms of any Subordinated Debt except for extensions of the due date thereof, or directly or indirectly redeem, retire, defease, purchase, retire or otherwise acquire any Subordinated Debt.

13.10. Construction in Progress. Cause, suffer or permit to exist any Mortgage, security interest or other encumbrance to secure Indebtedness on any Residential Unit financed by the Loans, except the Mortgage in favor of Agent and the Permitted Exceptions.

13.11. No Margin Stock. Use any of the proceeds of the Advances to purchase or carry any "margin stock" (as defined in Regulation U).

13.12. Transactions with Affiliates. Enter into any transaction (including, without limitation, the purchase or sale of any property or service) with, or make any payment or transfer to, any Affiliate, except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or a Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction.

14. EVENTS OF DEFAULT; REMEDIES

14.1. Events of Default. It is an Event of default hereunder ("Event of Default") if:

(a) any representation or warranty made or deemed made by or on behalf of the Borrower to the Lenders or the Agent under or in connection with this Agreement shall be false or misleading in any material respect when made:

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(b) any report, certificate, financial statement or other document or instrument furnished in connection with this Agreement or the Loans hereunder shall be false or misleading in any material respect when furnished;

(c) default shall be made in the payment of (i) the principal of any of the Notes when and as due and payable, or (ii) the interest on any of the Notes, any fees or any other sums due pursuant to the Loan Documents, within five (5) days after the same becomes due and payable;

(d) default shall be made with respect to any Indebtedness or Contingent Obligations of any member of the Obligated Group (other than the Indebtedness evidenced by the Notes), or in any net Liabilities under interest rate swap, exchange or cap agreements, beyond any applicable period of grace, or default shall be made with respect to the performance of any other obligation incurred in connection with any such Indebtedness or Liabilities beyond any applicable period of grace, or default shall be made with respect to any other liability of \$1,000,000 or more, if the effect of any such default is to accelerate the maturity of such Indebtedness or liability or to cause any other liability to become due prior to its stated maturity, or any such Indebtedness or liability shall not be paid when due and such default shall not have been remedied or cured by the Borrower or waived by the obligor;

(e) default shall be made in the due observance or performance of any of the provisions of Sections 12.5, 12.6 or Article 13 of this Agreement;

(f) default shall be made in the due observance or performance of any other covenant, agreement or condition on the part of the Borrower to be performed, and such default shall continue for a period of 30 days after the occurrence thereof;

(g) any member of the Obligated Group shall (i) petition or apply for, seek, consent to, or acquiesce in, the appointment of a receiver, trustee, examiner, custodian, liquidator or similar official of the Borrower or any of its properties or assets, (ii) be unable, or admit in writing its inability, to pay its debts as they mature; (iii) make a general assignment for the benefit of or a composition with its creditors, (iv) respect to it under the Federal bankruptcy laws as now or hereafter in effect, (v) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect, or file a petition or an answer seeking dissolution, winding up, liquidation or reorganization or an arrangement with creditors or a composition of its debts or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debts, dissolution or liquidation law or statute or other statute or law for the relief of debtors, or file any answer admitting the material allegations of a petition filed against it in any proceeding under such law, or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, or if corporate or other action shall be taken by the Borrower for the purpose of effecting any of the foregoing, or (vi) fail to contest in good faith any appointment or proceeding described in Section 14.1(h);

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(h) an order, judgment, or decree shall be entered without the application, approval, or consent of the applicable member of the Obligated Group by any court of competent jurisdiction appointing a receiver, trustee or liquidator of the applicable member of the Obligated Group or a proceeding described in Section 14.1(g) shall be instituted against any member of the Obligated Group, and such appointment shall continue undischarged or such proceeding continues undismissed or unstayed for any period of 45 days;

(i) final judgment for the payment of money in excess of \$1,000,000 shall be rendered against any member of the Obligated Group and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed or contested in good faith;

(j) final judgment(s) for the payment of money in excess of an aggregate of \$5,000,000 shall be rendered against the Obligated Group (or any of them) after the Effective Date and shall remain undischarged for a period of ten (10) days;

(k) there shall occur any Event or Events that, individually or in the aggregate, shall be deemed by the Lenders to have had a Material Adverse Effect;

(l) Any member of the Obligated Group shall be the subject of any proceeding or investigation pertaining to the release by any member of the Obligated Group or any other Person of any toxic or hazardous waste or substance

into the environment, or any violation of any federal, state or local environmental, health or safety law or regulation, that, in either case, could reasonably be expected to have a Material Adverse Effect;

(m) The occurrence of any "default", as defined in any Loan Document (other than this Agreement) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement), which default or breach continues beyond any period of grace therein provided;

(n) The discontinuance of development work on any Project for more than thirty (30) calendar days, which discontinuance is, in the sole determination of Agent, not caused by events outside of Borrower's control, or the failure to pursue the construction of the Project with reasonable diligence;

(o) Any suit which Agent reasonably determines not to be frivolous or spurious that shall be filed against Borrower or Guarantor, or the Project, and which, if adversely determined, could in the opinion of Agent substantially impair the ability of Borrower to perform any of its obligations under and by virtue of the Loan Documents;

(p) The death, incapacity or dissolution of any Guarantor; or

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(q) The existence of any condition or situation which Agent, in its sole discretion, determines to constitute a danger or impairment to the security for the Loans.

14.2. General Remedies. Upon the occurrence of an Event of Default, Lenders shall have all rights and remedies provided to it hereunder or under the other Loan Documents, or any other document under which Borrower shall be obligated to Lenders, or otherwise provided by law, and, without limiting the generality of the foregoing, Lenders may do any one or more of the acts described in this Section, under this Agreement or under any of the Loan Documents, in any order it deems appropriate. Lenders shall have the right to enforce any one or more of the remedies provided hereunder or by law or in equity either successively or concurrently, and any such action by Lenders shall not be deemed an election of remedies or otherwise prevent Lenders from pursuing any further remedy it may have hereunder or at law or in equity. Any election by Lenders to waive or forbear from enforcing any of its rights and remedies hereunder shall not prevent Lenders from so enforcing its rights and remedies in the event that the Default continues or upon the occurrence of a subsequent Default.

14.3. Advances to Protect Lenders' Interests. Without notice to or consent from Borrower, Lenders shall have the right, but not the obligation, at any time, to Advance to any person any sum which Lenders in their sole discretion deem necessary or desirable to protect or preserve the Collateral or Lenders' assignment of, or security interest in, the Collateral (or the priority thereof), or to cure any Unmatured Default or Event of Default which shall then exist. Each such Advance shall be secured by the Collateral and, at Lenders' election, shall either be reimbursed to it by Borrower immediately upon demand or added to the balance of the Loan and bear interest at the rate applicable under the Note. It is understood and agreed that nothing herein contained shall obligate Lenders to make any such Advance, nor shall the making of one or more such Advances constitute an agreement by Lenders to make any further Advance or be deemed a waiver of any Unmatured Default or Event of Default by Borrower under the terms hereof or of any other Loan Documents.

14.4. Cease Funding. Without notice to or consent of Borrower, Lenders shall have the right upon the occurrence of an Unmatured Default or an Event of Default to cease making any disbursements or Advances hereunder or pursuant to any of the Loan Documents.

14.5. Acceleration and Increased Rate of Interest. Without notice or demand, except as expressly provided herein, Lenders shall have the right, upon the occurrence of an Event of Default, to accelerate the maturity of the Loans and require immediate payment of the entire principal sum owing, together with all accrued interest, advances, costs and Lenders' attorneys' fees. During the existence of an Event of Default after such acceleration, interest under the Notes shall accrue at the Default Rate.

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14.6. Specific Performance. Lenders shall have the right to institute appropriate proceedings to specifically enforce performance of the terms and conditions of all or any of the Loan Documents.

14.7. Other Remedies. Lenders shall have the right to exercise any other right, privilege, or remedy available to Lenders under any of the Loan Documents, under any other agreement or instrument or as may be provided by applicable law or in equity. Lenders shall have the right to enforce any one or more of the remedies provided hereunder or by law or in equity either successively or concurrently, and any such action by Lenders shall not be deemed an election of remedies or otherwise prevent Lenders from pursuing any further remedy it may have hereunder or at law or in equity.

14.8. Application of Funds. In the event that all the Obligations shall have become or been declared due and payable pursuant to the terms of Section

14.5 hereof, the Lenders agree, by and among themselves, that any funds received from or on behalf of the Borrower by the Agent or any of the Lenders (except funds retained by any Lender pursuant to the terms of Section 16.1 hereof) shall be remitted to the Agent, if received by any Lender, and applied by the Agent (in the case of subsections (c), (d) and (e) below), on a pro rata basis among the Lenders in accordance with their respective Pro Rata Shares of the Aggregate Commitment in the following manner and order:

(a) first, to pay to or reimburse the Agent for any out-of-pocket expenses for which it is entitled to be paid or reimbursed pursuant to the provisions of Section 17.3 hereof;

(b) second, to reimburse any of the Lenders pursuant to the provisions of Section 17.4 hereof;

(c) third, to payment of accrued and unpaid interest due on the Notes;

(d) fourth, to payment of the outstanding principal of the Notes;

(e) fifth, to payment in full of all the remaining Obligations; and

(f) sixth, any remainder shall be returned to the Borrower or as otherwise required by applicable law.

15. BENEFIT OF AGREEMENT; DISSEMINATION OF INFORMATION

15.1. Successors and Permitted Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and permitted assigns, except that (i) the Borrower shall not have the

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right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Lender must be made in compliance with the Co-Lender Agreement.

15.2. Dissemination of Information. The Borrower authorizes each Lender to disclose to any prospective participant or prospective purchaser or any other Person acquiring an interest in the Loan Documents by operation of law any and all information in such Lender's possession concerning the creditworthiness of the members of the Obligated Group.

16. SETOFF; RATABLE PAYMENTS

16.1. Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Event of Default or Unmatured Default occurs, any indebtedness from any Lender to the Borrower (including all account balances, whether provisional or final and whether or not collected or available) may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part thereof, shall then be due. Each Lender agrees promptly to notify the Borrower after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of any such set-off and application. The rights of each Lender under this Section 16.1 are in addition to any other rights and remedies which that Lender may have under this Agreement or otherwise.

16.2. Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to Sections 9.1 or 9.2) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its Pro Rata Share of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in accordance with their respective Pro Rata Shares. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

17. MISCELLANEOUS

17.1. Notice.

(a) Except as otherwise permitted by Article 8 with respect to Borrowing Notices, all notices and other communications provided for under this Agreement or any of the Loan Documents shall be in writing (including telegraphic, telecopy or other facsimile communication) and mailed, telecopied (or communicated by other means of facsimile

transmission) or delivered (by hand or by courier service), to the parties at their respective addresses set forth below or at such other address as shall be designated by such party in a written notice to the other parties. All notices and communications, shall be effective upon the earliest of actual receipt or the following: (a) in the case of delivery by United States mail, three (3) Business Days after deposit in the United States mail (postage prepaid); (b) in the case of delivery by telecopy or other facsimile transmission, upon confirmation of error-free transmission; (c) in the case of hand delivery, upon actual receipt against signed acknowledgment of receipt or an affidavit of delivery; and (d) in the case of delivery by overnight courier, one (1) Business Day after deposit with a reputable overnight courier service:

To Agent and Norwest as follows:

Norwest Bank Arizona, National Association
3300 North Central Avenue
M.S. 9008
Phoenix, Arizona 85012
Attention: Mr. Kevin Kosan, Vice President
FAX: (602) 248-3661

To BOAZ as follows:

Bank One, Arizona, NA
Bank One Tower
P.O. Box 29542
Phoenix, Arizona 85038
Attention: Mr. Kevin Schillig, Vice President
FAX: (602) 221- 0301

or for hand delivery only:

Bank One, Arizona, NA
Bank One Tower
201 North Central Avenue, Floor 20
Phoenix, Arizona 85004
Attention: Mr. Kevin Schillig, Vice President
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To Borrower and its Subsidiaries as follows:

Monterey Homes
6613 North Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Attention: Mr. Larry W. Seay, Chief Financial Officer
FAX: (602) 998-9162

To Guarantors:

Monterey Homes
6613 North Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Attention: Mr. William W. Cleverly
Attention: Mr. Steven J. Hilton
FAX: (602) 998-9162

(b) The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

17.2. Survival of Representations. All covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto shall survive the making by the Lenders of any Loans and the execution and delivery to the Lenders of the Notes evidencing the Commitments, and shall continue in full force and effect until all of the Obligations have been paid in full, all of the Letters of Credit have been terminated and the Aggregate Commitment has been terminated.

17.3. Expenses. The Borrower shall pay (i) all expenses, including attorneys' fees and disbursements (which attorneys may be employees of the Agent or any Lender), incurred by the Agent and any Lender in connection with the administration of this Agreement and the other Loan Documents (except for the normal and customary administration expenses which are subject to a separate letter agreement between Borrower and Agent), any amendments, modifications or waivers with respect to any of the provisions thereof and the enforcement and protection of the rights of the Lenders and the Agent under this Agreement or any of the other Loan Documents, after the occurrence of an Unmatured Default or Event of Default or if requested by Borrower, and including costs, expenses and fees incurred before, after or irrespective of whether suit is commenced and including costs, expenses and fees incurred by Lender in any bankruptcy proceedings (including, without limitation, efforts to modify or vacate any automatic stay or injunction) or appellate proceeding, and in the event suit or arbitration is brought to enforce payment hereof, such costs, expenses and fees

and all other issues in such suit

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shall be determined by a court sitting without a jury or by the arbitrator(s), as applicable, including all recording and filing fees, documentary stamp, intangibles and similar taxes, title insurance premiums, appraisal fees and other costs and disbursements incurred in connection with the taking of collateral and the perfection and preservation of the Agent's security therein, and (ii) the reasonable fees and the disbursements of attorneys (which attorneys may be employees of the Agent or Lenders) in connection with the preparation, negotiation, execution, delivery and review of this Agreement, the Notes and the other Loan Documents (whether or not the transactions contemplated by this Agreement shall be consummated) and the closing of the transactions contemplated hereby.

17.4. Indemnification of the Lenders and the Agent. The Borrower shall indemnify and hold harmless the Agent and each Lender, and their respective affiliates, subsidiaries, shareholders, directors, officers, agents, employees and attorneys against all third Person claims, damages, penalties, judgments, Liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to, directly or indirectly, this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder; provided, however, that in no event shall the Agent or a Lender have the right to be indemnified hereunder for its own gross negligence or willful misconduct. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

17.5. Release of Claims.

(a) As additional consideration for the agreements by Lenders as set forth in this Agreement, Borrower hereby releases and forever discharges Lenders, their agents, servants, employees, directors, officers, attorneys, branches, affiliates, subsidiaries, successors and assigns and all persons, firms, corporations, and organizations in their behalf of and from all damage, loss, claims, demands, Liabilities, obligations, actions and causes of action whatsoever which Borrower may now have or claim to have against Lenders, whether presently known or unknown, and of every nature and extent whatsoever on account of or in any way touching, concerning, arising out of or founded upon the Existing Loans or upon this Agreement, any negotiations, loan administration, extension or denial of credit, exercise of rights and remedies, payment, offset with respect to, or other matter relating to such indebtedness, any collateral securing payment and performance of such indebtedness, or any matter preliminary to the execution and delivery by Borrower and Lender of this Agreement, or any statement, action, omission or conduct of Lender or any of its officers, directors, agents, employees, servants, partners, shareholders, attorneys and managers relating in any manner to such indebtedness, collateral or this Agreement. The release set forth above shall not extend to any claim arising after the date hereof to the extent based on acts or omissions of Lender occurring after such date, except that such release is specifically intended by the parties to include the transactions leading

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up to the execution of this Agreement. This Agreement and the release provisions contained in this Section 17.5 are contractual, and not a mere recital.

(b) Borrower acknowledges and agrees that Lender is not, and shall not be, obligated in any way to continue or undertake any loan, financing or other credit arrangement with Borrower, including, without limitation, any renewal of the indebtedness evidenced by the Loan Documents.

17.6. Maximum Interest Rate. It is the intention of the Lenders and the Borrower that the interest (as defined under applicable law) on the Indebtedness evidenced by the Notes that may be charged to, or collected or received from the Borrower, shall not exceed the maximum contract rate permissible under applicable law. Accordingly, notwithstanding any other provision of this Agreement to the contrary, should any interest (as so defined) be charged to, or collected or received from the Borrower by the Lenders pursuant hereto or thereto in excess of the maximum legal rate, then the excess payment shall be applied to the reduction of the aggregate outstanding principal balance of the Obligations, and any portion of the excess payment remaining after payment in full thereof shall be returned by the Lenders to the Borrower and the Borrower agrees to accept such returned payment.

17.7. Modification of Agreement. No modification, amendment or waiver of any provision of this Agreement or the Notes, nor any consent to any departure by the Borrower therefrom, in any event shall be effective unless the same shall be in writing and signed by the Borrower and the Agent on behalf of the Lenders, and then the waiver or consent shall be effective only in the specific instance and for the purpose for which given.

17.8. Preservation of Rights. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of an Event of Default or Unmatured Default, or the inability of the Borrower to satisfy the

conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders, and then only to the extent specifically set forth in such writing. All remedies contained in the Loan Documents or available at law or in equity shall be cumulative and all such remedies shall be available to the Agent and the Lenders until the Obligations have been paid in full.

17.9. Joint and Several Obligations of Borrower; Several Obligations of Lenders. All obligations, representations and warranties hereunder and under any of the Loan Documents, unless otherwise expressly stated, shall be the joint and several liability of all of the entities comprising the Borrower. The respective obligations of the Lenders hereunder are several and

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not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. Borrower shall have no cause of action, claim for damages or liability or any other rights of indemnity or otherwise against any other Lender due to the failure of any Lender to perform its obligations under this Agreement. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and permitted assigns.

17.10 Severability. If any one or more of the provisions contained in this Agreement or the Notes is held invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

17.11. Counterparts. This Agreement may be executed in two or more counterparts, each of which may be executed by one or more of the parties hereto, but all of which combined shall constitute a single instrument binding on all the parties hereto.

17.12. Loss, etc., Notes. Upon receipt by the Borrower of reasonably satisfactory evidence of the loss, theft, destruction or mutilation of any of the Notes, and upon surrender and cancellation of the relevant Note, if mutilated, the Borrower shall make and deliver in lieu of that Note (the "Prior Note") a new Note of like tenor, except that no reference need be made in the new Note to any installment or installments of principal, if any, previously due and paid upon the Prior Note. Any Note made and delivered in accordance with the provisions of this Section shall be dated as of the date to which interest has been paid on the unpaid principal amount of the Prior Note.

17.13. Governmental Regulation. Notwithstanding anything to the contrary contained herein, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

17.14. Taxes. Any taxes (excluding federal income taxes on the overall net income of any Lender) or other similar assessments or charges payable or ruled payable by any Governmental Authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

17.15. Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

17.16. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof; provided, however, that the fees payable by

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Borrower to Norwest in consideration of its agreement to serve as Agent hereunder are set forth in a separate letter agreement between Borrower and Norwest. The parties hereto agree that on the Effective Date, the commitments of the Lenders under the Existing Loans shall be terminated and of no further force and effect.

17.17. Signs. Provided there is no conflict with the Permitted Exceptions and subject to Borrower's reasonable approval as to design and location, Borrower shall allow Lenders to erect a sign that will be supplied by Lenders upon commencement of development indicating Lenders as the source of the development financing. Said sign shall be of sufficient size as to be easily recognizable from a distance of 150 feet, provided that such signage is consistent with applicable municipal and governmental ordinances and does not materially inhibit Borrower's ability to erect signage upon the Project. Borrower shall have the sole responsibility for permitting and maintaining the sign until completion of the Project.

17.18. ARBITRATION AGREEMENT; WAIVER OF RIGHT TO JURY TRIAL. EXCEPT FOR "CORE PROCEEDINGS" UNDER THE UNITED STATES BANKRUPTCY CODE, THE PARTIES AGREE TO SUBMIT TO BINDING ARBITRATION ALL CLAIMS, DISPUTES AND CONTROVERSIES BETWEEN OR

AMONG THEM, WHETHER IN TORT, CONTRACT OR OTHERWISE (AND THEIR RESPECTIVE EMPLOYEES, OFFICERS, DIRECTORS, ATTORNEYS, AND OTHER AGENTS) ARISING OUT OF OR RELATING TO IN ANY WAY THIS AGREEMENT. ANY ARBITRATION PROCEEDING WILL (A) PROCEED IN PHOENIX, ARIZONA; (B) BE GOVERNED BY THE FEDERAL ARBITRATION ACT (TITLE 9 OF THE UNITED STATES CODE); AND (C) BE CONDUCTED IN ACCORDANCE WITH THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THIS ARBITRATION REQUIREMENT DOES NOT LIMIT THE RIGHT OF ANY PARTY TO (I) FORECLOSE AGAINST REAL OR PERSONAL PROPERTY AFTER OBTAINING A JUDGMENT OR ARBITRATION AWARD OR ENFORCE A DEFICIENCY JUDGMENT AFTER FORECLOSURE; (II) EXERCISE SELF-HELP REMEDIES SUCH AS SETOFF; OR (III) OBTAIN PROVISIONAL ANCILLARY REMEDIES SUCH AS REPLEVIN, INJUNCTIVE RELIEF, ATTACHMENT OR THE APPOINTMENT OF A RECEIVER, BEFORE, DURING OR AFTER THE PENDENCY OR ANY ARBITRATION PROCEEDING. THIS EXCLUSION DOES NOT CONSTITUTE A WAIVER OF THE RIGHT OR OBLIGATION OF ANY PARTY TO SUBMIT ANY DISPUTE TO ARBITRATION, INCLUDING THOSE ARISING FROM THE EXERCISE OF THE ACTIONS DETAILED IN CLAUSES (I), (II) AND (III) ABOVE. ANY ARBITRATION PROCEEDING WILL BE BEFORE A SINGLE ARBITRATOR SELECTED ACCORDING TO THE COMMERCIAL ARBITRATION RULES OF THE AAA. THE ARBITRATOR WILL BE A NEUTRAL ATTORNEY WHO HAS PRACTICED IN THE AREA OF COMMERCIAL LAW FOR A MINIMUM OF TEN YEARS. THE

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ARBITRATOR WILL DETERMINE WHETHER OR NOT AN ISSUE IS ARBITRABLE AND WILL GIVE EFFECT TO THE STATUTES OF LIMITATION IN DETERMINING ANY CLAIM. JUDGMENT UPON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. IN ANY ARBITRATION PROCEEDING, THE ARBITRATOR WILL DECIDE (BY DOCUMENTS ONLY OR WITH A HEARING AT THE ARBITRATOR'S DISCRETION) ANY PRE-HEARING MOTIONS WHICH ARE SIMILAR TO MOTIONS TO DISMISS FOR FAILURE TO STATE A CLAIM OR MOTIONS FOR SUMMARY ADJUDICATION. IN ANY ARBITRATION PROCEEDING DISCOVERY WILL BE PERMITTED AND WILL BE GOVERNED BY THE ARIZONA RULES OF CIVIL PROCEDURE. ALL DISCOVERY MUST BE COMPLETED NO LATER THAN 20 DAYS BEFORE THE HEARING DATE AND WITHIN 180 DAYS OF THE COMMENCEMENT OF ARBITRATION PROCEEDINGS. ANY REQUESTS FOR AN EXTENSION OF THE DISCOVERY PERIODS, OR ANY DISCOVERY DISPUTES, WILL BE SUBJECT TO FINAL DETERMINATION BY THE ARBITRATOR UPON A SHOWING THAT THE REQUEST FOR DISCOVERY IS ESSENTIAL FOR THE PARTY'S PRESENTATION AND THAT NO ALTERNATIVE MEANS FOR OBTAINING INFORMATION IS AVAILABLE. THE ARBITRATOR SHALL AWARD COSTS AND EXPENSES OF THE ARBITRATION PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF THE LOAN AGREEMENT. EXCEPT AS OTHERWISE PROVIDED HEREIN, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ARIZONA, WITHOUT REGARD TO ITS CONFLICT OF LAWS RULES. IN THE EVENT THAT LENDER EXERCISES ITS RIGHTS TO FORECLOSE AGAINST REAL OR PERSONAL PROPERTY COLLATERAL OR OBTAIN PROVISIONAL ANCILLARY REMEDIES SUCH AS REPLEVIN, INJUNCTIVE RELIEF, ATTACHMENT OR THE APPOINTMENT OF A RECEIVER, THE PARTIES AGREE THAT ANY LAWSUIT ARISING OUT OF ANY SUCH CONTROVERSY SHALL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF ARIZONA.

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

BORROWERS:

Monterey Homes Construction II, Inc., an
Arizona corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Chief Financial Officer

Monterey Homes Arizona II, Inc., an Arizona
corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Chief Financial Officer

LENDERS:

Norwest Bank Arizona, National Association, a national banking association

By: /s/ Kevin Kosan

Name: Kevin Kosan

Title: Vice President

Bank One, Arizona, NA, a national banking association

By: /s/ Kevin C. Schillig

Name: Kevin C. Schillig

Title:

AGENT:

Norwest Bank Arizona, National Association, a national banking association

By: /s/ Kevin Kosan

Name: Kevin Kosan

Title: Vice President

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List of Exhibits

Exhibit "A"	Model Chart and Purchase Price Schedule
Exhibit "B"	Early Termination Release Prices
Exhibit "C"	Form of Sales Report
Exhibit "D"	Form of Acknowledgment of Lease Term Expiration
Exhibit "E"	Buyer's Addendum #1 to Real Estate Purchase Contract
Exhibit "F"	Guarantee
Exhibit "G"	Minimum Lease Term and Termination Schedule
Exhibit "H"	Hazardous Materials Laws and Hazardous Materials Definition (iii) REVOLVING MODEL HOME LEASE BACK AGREEMENT

This Revolving Model Home Lease Back Agreement (the "Lease") is dated for reference purposes only as of the 18th day of December, 1996 and is entered into by and between AMHM-1, L.P., a California limited partnership ("AMH") and MONTEREY HOMES ARIZONA II, INC., an Arizona corporation ("Builder").

RECITALS

A. Builder and AMH have previously entered into that Revolving Model Home Purchase Agreement (the "Purchase Agreement") whereby AMH has purchased

certain model homes identified on the "Model Chart" attached hereto as Exhibit "A", as the same may be revised from time to time, (the "Models") located in one or more housing projects (the "Projects"). The related Purchase Agreement and this Lease have the same "Transaction Number" as assigned by AMH, for accounting purposes, and shown on the cover of both the Purchase and Lease Agreements. All initial-capitalized terms not otherwise defined herein shall have the same meaning ascribed to them in the Purchase Agreement. The terms of the Purchase Agreement are incorporated herein by this reference.

B. AMH has purchased the Models and AMH now desires to lease back the Models to Builder. Under the Purchase Agreement, additional Models not shown on the Model Chart may yet become subject to the Purchase Agreement and may yet be purchased by AMH after the conduct of AMH's Feasibility Review (as defined below) for such additional Models. Upon the Settlement of any such additional Model, such Model shall become subject to this Lease by a modification of the Model Chart by the parties. This Lease shall become effective for each respective Model as of the Settlement Date for such Model, which is also the "Lease Commencement Date" for such Model.

C. The Lease Term (as hereinafter defined) may expire with respect to certain Models while remaining in effect for other Models until the date of expiration of the Lease Term (the "Lease Expiration Date") for such other Models. The terms of this Lease may vary with respect to different Models as further described herein.

D. This Lease governs and affects only those Models which are described on the Model Chart, as the same may be revised from time to time by the parties. A default under this Lease (taking into account all applicable grace and cure periods) with respect to any Model now or hereafter described on the Model Chart, constitutes a default with respect to all Models described on the Model Chart.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, AMH hereby leases the Models to the Builder upon the following terms and conditions.

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1. Recitals Incorporated by Reference.

AMH and Builder acknowledge that the recitals are true and correct representations, warranties, covenants and agreements by and between the parties. Such recitals are incorporated herein by this reference.

2. Multiple Models in Multiple Projects.

Certain terms of this Lease with respect to each Model are set forth in the Model Chart, as the same may be revised from time to time by mutual agreement. This Lease is applicable to each Model described on the Model Chart, as the same may be revised from time to time, the same as if each of the Models, respectively were the only property subject to this Lease. A Model may be "Converted" (as defined in Paragraph 6.2 below) and sold without affecting the validity and enforceability of this Lease with respect to remaining Models in other Projects.

3. Models.

The term "Models" includes (i) with respect to free-standing homes, the underlying realty and all the improvements located thereon, including without limitation, the landscaping, irrigation equipment, sidewalks, walls and the house, and (ii) with respect to condominiums, an undivided interest in the underlying realty and all common improvements located thereon, plus title to the subject individual dwelling unit as defined in the governing documents applicable thereto. Fixtures located within the house or condominium which cannot be removed without damage to the Models, the draperies and drapery hardware, built-in home entertainment systems excluding televisions, the built-in appliances located in the Models as of the Lease Commencement Date, pools and pool equipment and built-in or custom cabinetry or woodwork are deemed to be a part of the Models. The term "Models" does not include furniture (unless built-in), accessories such as vases, paintings, and other art and decorating objects; office furniture and equipment, or office fixtures located in the Models (unless otherwise specified on the Exhibit A Model Chart).

3.1 Security Deposit: Builder shall deposit with AMH, cash or an acceptable Letter of Credit, in the amount of one month's rent, which shall be held as a security deposit by AMH until such time as the proposed merger between Builder and Homeplex is completed or prorated until all the units on the Model Chart have been resold by AMH and Builder pursuant to the Purchase and Lease Agreement. Failure by Builder to replace any Letter of Credit within 10 business days of the expiration of the Letter of Credit will constitute an Event of Default under this Lease Agreement.

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4. Lease Rate.

4.1 Variable Lease Rate. Builder shall pay to AMH as monthly installments of "Rent" under this Lease, for each of the Models subject hereto, variable amounts which are calculated by determining the "Lease Rate" for each month of the Lease Term. In this connection, the monthly Lease Rate for all Models subject to this Lease for each calendar month of the Lease Term shall be equal to the amount determined by the following calculation: one-twelfth of the product of (i) the 3-month LIBOR Rate as published by the Wall Street Journal on the first business day of the prior month, plus 650 basis points, multiplied by (ii) the Purchase Price of all Models then covered by this Lease (as set forth in the Model Chart as same may be revised from time to time) on the date such Rent is due. With respect to any Model for which the Lease has terminated or expired on any day other than the first day of a calendar month, the installment of Rent which is due on the first day of the following calendar month shall be prorated to take into account such Lease termination or expiration.

4.2 Generally. Builder shall pay to AMH, as Rent for the Models, IN ADVANCE ON THE FIRST DAY OF EACH CALENDAR MONTH OF THE LEASE TERM without deduction, offset, prior notice or demand, in lawful money of the United States, the amount of monthly Rent calculated pursuant to the formula set forth in Paragraph 4.1 above. Rent shall be paid commencing on the Lease Commencement Date and until the Lease Expiration Date for the respective Models. If the Lease Commencement Date for the Models in a Project is not the first day of a month, Builder shall pay a prorated portion of the Rent for that month. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH HEREIN, THERE IS NO GRACE PERIOD FOR THE PAYMENT OF RENT. The first full monthly installment of Rent payable by Builder pursuant to this Lease shall be paid to AMH on January 1, 1997.

5. Lease Term.

5.1 Length of Lease. The term of this Lease (the "Lease Term") for each of the Models covered respectively by this Lease (including Models subsequently added to the Model Chart by addendum as Additional Model(s)) shall commence on the Settlement Date (as defined in the Purchase Agreement) for such Model, and shall expire, subject to the provisions of Paragraph 6 below, on the six (6) month or first (1st) anniversary thereof pursuant to the scheduled maximum mandatory lease term date on Exhibit "G", unless sooner terminated pursuant to the provisions hereof. Notwithstanding the foregoing, Builder shall have the right to cause early termination of the Lease Term for individual Models covered by the Lease pursuant to the terms of Paragraphs 5.2.1, 5.2.2 and 5.2.3 below. In its exercise of any such early termination rights, however, Builder may not terminate the Lease if, as a result of such proposed termination and taking into account any previous instances where Builder may have exercised any of its early termination rights, more than four (4) Models may remain unsold within a given Development (the "Inventory Restriction"). As to Additional Models, in its exercise of any such early termination rights, Builder may not terminate the Lease for a particular Model or group of Models within a specific master planned community or subdivision ("Development") under any circumstance, if,

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as a result of such proposed termination and taking into account any previous instances where Builder may have exercised any of its early termination rights, more than four (4) Models may remain unsold within a three (3) mile radius of a given Development (the "Inventory Restriction"), unless mutually modified by both parties. Builder shall have the right to extend the term of this Lease for each model, prior to the initial lease term expiration date, on a month to month basis or, if builder, at builder's option, elects to extend the lease for a minimum of six (6) months, for a maximum of two (2) six (6) month extensions. The builder shall have the option to extend the lease on each unit on a month to month basis, after either the expiration of the lease term or expiration of any six (6) month options previously exercised.

5.2 Early Termination by Builder During Lease Term. Builder is hereby provided three separate methods (set forth, respectively, in Sections 5.2.1, 5.2.2 and 5.2.3) by which Builder may cause early termination of the Lease Term for a particular Model. Each method of termination is independent of the others but may be exercised in conjunction with other termination methods so long as there is no violation of the Inventory Restriction. Furthermore, the exercise of any termination right described herein requires at least ninety (90) days prior notice from Builder to AMH of Builder's intent to exercise such early termination right (the "Termination Notice"), and no Lease for a particular Model shall be deemed to have terminated unless such Model has been "Converted" as provided in Paragraph 6 below. However, notwithstanding that the Builder has given such Termination Notice, the Expiration Date of the Lease Term shall be the later to occur of (a) 90 days following receipt of such written notice from Builder, or 30 days from the completion of Conversion of the Models.

5.2.1 Lease Termination: At Builder's option, Builder may elect to terminate the Lease with respect to a Model described in the Model Chart pursuant to the schedule shown on Exhibit "G" which allows for the termination of those Models on the date(s) prescribed per the notice described in Section 5.2 above. Should Builder elect not to cancel a lease with respect to a particular unit per Schedule "G" or, if Builder cancels or rescinds a Termination Notice previously given to AMH, Builder may elect to extend the lease for that unit on a month to month basis, provided however that Builder

repeats to the 90 day notice provision described in Section 5.2 above. If Additional Model(s) are added to the Model Chart by addendum, Builder may release said Additional Models at any time beginning at one (1) year after the Lease Commencement Date for that Additional Model(s) so long as the aggregate releases for all Additional Model(s) in any one month complies with the inventory restriction as defined in Paragraph 5.1.

5.2.2 Early Termination. Notwithstanding Section 5.2.1, with respect to each Model or Additional Models leased hereunder, at any time beginning before the date which is six (6) months or one (1) year after the Lease Commencement Date for that Model Builder may elect to terminate the Lease prior to expiration of the Lease Term of that Model or Additional Models if circumstances change such that there is no longer any business purpose served by the continued use of such Model or Additional Models as a model home. Builder may discontinue such use upon providing the applicable Termination Notice to AMH specifying the change in circumstances. Irrespective of the number of models released under 5.2.1 above, Builder agrees to give AMH such Early Termination Notice immediately upon Builder's determination that it no

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longer intends to use the Model as a model home with a date that the use as a Model shall be discontinued. The purpose of the Early Termination Notice shall be to give AMH and Builder an opportunity to sell the Model while marketing traffic is still visiting the Model. For that reason, Builder shall give such Early Termination Notice as soon as possible, and maintain current marketing efforts, including using furnished and decorated models, similar sales hours and advertising. Within sixty (60) days of sending such Early Termination Notice, Builder shall begin to Convert the Model. On behalf of AMH, Builder shall attempt to obtain an agreement to sell such Model at a price equal to or greater than the price established solely by AMH within ten (10) days after its receipt of the Early Termination Notice(s), at which price Builder shall offer the said Model for sale (the "Early Termination Price") substantially as scheduled on Exhibit "B", and Builder shall continuously thereafter offer the Model for sale to the buying public at such price for a period of sixty (60) days or less, as determined by AMH. Builder's right to terminate the Lease pursuant to the foregoing is expressly conditioned upon Builder obtaining a purchase price which equals or exceeds the Early Termination Price.

5.2.3 Minimum Sale Price: Provided, however, that if such sixty (60) day period referenced in 5.2.2 above shall expire without Builder having sold the Model in question at a price equal to or greater than the Early Termination Price, Builder shall have a continuing right to elect to terminate the Lease as to such Model by (i) obtaining an agreement, previously approved by AMH, to sell such Model for a price which, equals or exceeds the price for such Model specified in Exhibit "B" attached hereto (such price is referred to herein as the "Minimum Sales Price") or (ii) obtains an agreement, previously approved by AMH, to sell such Model for a price less than the Minimum Sales Price, but pays into the sale escrow the difference between such sales price and the Minimum Sales Price prior to close of escrow for such sale, with such amount to be paid to AMH at close of escrow. Notwithstanding any other provision of this paragraph or Section 5.2.2, no Lease shall terminate under this paragraph or Section 5.2.2 until the closing of the sale of that Model for a price equal to or greater than the Early Termination Price or, after the initial sixty (60) day sale period, during the subsequent sales period described in paragraph 5.23, for a price equal to or greater than the Minimum Sales Price. Until such termination of the Lease occurs, however, all the provisions of the Lease shall continue to be effective with respect to such Model, including all the maintenance requirements, payments of Rent and Conversion requirements set forth in the Lease.

5.3 Rent. Each and every obligation of Builder to pay money to or for the benefit of AMH under this Lease is hereby deemed to be included within the term "Rent". Rent due for any partial month shall be based on a thirty (30) day month, regardless of the actual days in such month.

5.4 Payment Agent. AMH may enter into an arrangement whereby Rent is paid by Builder to a payment agent (the "Custodial Account") for disbursement to secured parties, and then to AMH. AMH shall provide notice to Builder of the name, address and method by which Rent payments are to be sent to the Custodial Account. Builder shall have no liability for the acts or failures to act of the Custodial Account agent so long as Builder makes the payments directed by AMH as and when required.

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6. Conversion of Model.

6.1 Conversion Prior to Expiration Date. Prior to the Lease Expiration Date for each Model, Builder shall "Convert" (as defined below) each Model to a single family residence ready for sale to the public and immediate occupancy. In no event shall the Lease Expiration Date for any Model occur prior to the Conversion of such Model.

6.2 Definition of Conversion. As used herein, the term "Convert" (and its derivations) means (a) the obtaining by Builder of a certificate of occupancy (or its equivalent in the subject jurisdiction) for the Model, (b) restoring the Model to the "Acceptable Condition" (as defined below), (c)

completing any other work required to remove special improvements installed for marketing purposes, and (d) generally transforming the Model and applicable portions of the model complex to an ordinary, habitable home. Without limiting the generality of the foregoing, Conversion includes removing and properly disposing of all asphalt from the applicable model lot used as a parking lot; transforming all garages used as offices into garages; and removing all railings, fencing, walls, sidewalks and other devices which were installed to direct sales traffic to said Model; removing all sales signs and other sales equipment and fixtures; removing all of Builder's property from the Model; repainting, cleaning, replacing or repairing, as appropriate, all damages caused by marketing traffic, Builder's activities or other conversion activities to bring the Model to the Acceptable Condition (as hereafter defined) and performing all repairs, retrofits and other work required to make the Model a fully functioning and occupiable home.

6.3 Acceptable Condition.

6.3.1. Generally, the Acceptable Condition of all mechanical equipment, appliances and structural components shall be their clean, used, properly functioning condition with all repairs and maintenance performed to date and without obvious physical blemish or other signs of deferred maintenance or physical damage. Such items as fans, air conditioning units, toilets and plumbing fixtures, ranges, ovens, and lighting fixtures are subject to this standard.

6.3.2. The Acceptable Condition of all painted items, such as walls, where the paint is still intact and in good condition is thoroughly cleaned without visible smudges or other soiling; if there are any areas where the paint has been removed through abrasion or collision, such areas shall be repaired and painted with matching paint. The Acceptable Condition of wall papered surfaces is clean without any obvious physical damage or sagging; areas of physical damage or sagging shall be replaced with matching wallpaper. The Acceptable Condition of carpeting is thoroughly cleaned without physical damage or noticeably worn areas. The Acceptable Condition of all other flooring shall be thoroughly cleaned. The Acceptable Condition of all brick work and concrete work shall be clean and without visible physical damage; all physical damage shall be properly repaired. The Acceptable Condition of drapes, curtains, blinds, tinting and mirroring and other window coverings and treatments is thoroughly cleaned and in good mechanical condition. The Acceptable Condition of any option item or

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upgrades installed in the Models shall be the acceptable condition for similar features, appliances or surfaces, minimal wear and tear excepted. The buyers of each model home shall sign an Addendum to the Purchase Agreement (attached as Exhibit "E") relating to the model home condition.

7. Additional Options.

At the request of AMH, and upon reasonable notice, Builder shall install any of those options available, such as home theater equipment and non-built-in appliances, for a similar production unit which are offered to the public. AMH shall pay Builder's cost for such options

8. Sales of Models.

8.1 Marketing Efforts. Subject to Paragraph 5.2 above, Builder shall use its reasonable efforts to sell each Model on behalf of AMH beginning ninety (90) days prior to expiration or early termination of the Lease Term. However, if Builder is unable to sell the Model within sixty (60) days after it commences its marketing efforts, AMH shall have the right to market the Model at any time after expiration of such sixty (60) day period upon notice to Builder, and the right to utilize any marketing methods and techniques commonly utilized in the same general area and Builder shall discontinue its marketing efforts. This includes, but is not limited to, (a) listing the Model with a multiple listing service, (b) listing the Model with a local realtor, (c) placing advertisements in local media, which advertising is allowed to use the Builder's name, with Builder's prior written approval, not to be unreasonably withheld and the name of the Project, and (d) engaging other brokers or sales persons to market the Model. Notwithstanding the foregoing, in the event Builder elects to exercise any of its termination rights under Section 5.2 above, any time after five (5) days after Builder has delivered the applicable Termination Notice to AMH, and not until, AMH may also place a "For Sale" sign on the front yard of the Model's lot, and conduct open houses in the Model. Until five (5) days after receipt of the Termination Notice, AMH shall not place signs on any part of the Model lots or within the Models. Each party shall conduct its activities in a reasonable and courteous manner which avoids unnecessary interference with the activities of the other party. In no event shall the sales price of the units during the initial ninety (90) day marketing period described above, be less than AMH's purchase price of the units, as shown in Exhibit "A" plus sales closing costs not to exceed five (5%) percent.

8.2 Request by AMH for Builder's Assistance. In connection with Builder's assistance to AMH in selling each Model as provided in Paragraph 8.1 above, Builder shall undertake to sell the Models at a sales price established

by AMH in its sole and absolute discretion (the "Sales Price"). The parties acknowledge that Builder may have other production homes to market, the sale of which may directly compete with the sale of the Models. AMH acknowledges the existence of such conflict of interest and waives any right to object to Builder's efforts to market its production units at any price it elects. AMH shall pay Builder a broker's commission equal to three percent (3%) of the Sales Price as full compensation to Builder for its efforts in selling such Model, provided Builder sells each unit for the amounts equal to or greater than shown on Exhibit "B", however, if a cooperating broker is used and

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procures the buyer, Builder shall be entitled to one and one half percent (1.5%) of the Sales Price. AMH shall be responsible for the payment of a commission to any cooperating broker not affiliated with Builder.

8.3 Early Sales. If AMH sells the Model(s) prior to the expiration of the Lease Term in accordance with Paragraph 8.1 above, any purchaser of the Model(s) shall take title thereto subject to the terms of the Lease. AMH shall notify Builder of any such sale and shall continue to manage the Lease, interface with Builder to the exclusion of such purchaser, and shall be liable for the performance of all obligations of the landlord thereunder notwithstanding the sale of the Model.

8.4. Unrestricted Sales. Builder shall take all necessary actions to maintain all units subject to this agreement as fully entitled and title is transferable to a third party purchaser without any further legislative, administrative or judicial review or action.

9. Offset Rights.

If Builder is in default of this Lease, taking into account all applicable grace and cure periods, AMH shall have the right, but not the obligation, to offset any amounts owed by AMH to Builder by the amount in default (or, if applicable, the reasonable amount to cure such default).

10. Customer Service and Warranty by Builder Following Sales.

Subject to the terms of this paragraph, Builder shall provide customer service and warranty coverage for a one year period to each purchaser of a Model the same as if the Model were a production unit and the same as if Builder had always been the owner of the Model or a one year third party resale warranty. Without limiting the foregoing, the Builder shall provide the purchaser of a Model the same warranty as Builder provided to other purchasers in the same Project or a residential resale warranty paid for by Builder at settlement, which provides a similar level of coverage described in this paragraph. The customer service period and warranty coverage shall commence upon the sale of the Model to a consumer (the "Warranty Commencement Date"). On such date a warranty or warranties shall be issued to the purchaser/consumer for the Model. Notwithstanding that components (including but not limited to appliances, mechanical equipment options and upgrades) of the Model may be used as described above in this Lease, the Builder's warranty or warranties shall apply to such components for the longer of one year or the remaining portion of the manufacturer's original warranty.

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11. Absolute Obligation to Pay Rent.

This Lease is an "Absolutely Net Lease" and Builder's liability and obligation to pay the Rent until the termination of the Lease Term of any Model(s) as prescribed within this Lease is a separate, absolute, unconditional and independent covenant to be performed notwithstanding any other conditions. The Builder shall have no right to terminate this Lease except as provided herein, or to be relieved of any obligation to pay the Rent for any reason whatsoever not expressly set forth herein, including without limitation, (a) any set off, counterclaim, defense or other right which the Builder may have against AMH, (b) any defect in the condition, design, operation or fitness for use of, or any damage or loss or destruction of the Models or any portion thereof (including any environmental condition or contamination even if the Builder is not responsible or liable under this Lease for such condition or contamination), (c) any interruption or cessation in the use or possession of the Models by the Builder for any reason whatsoever, (d) the existence of any liens, charges, security interests or other encumbrances against the Models, (e) any insolvency, bankruptcy, reorganization or similar proceedings by or against AMH or Builder, (f) any default by AMH under this Lease or under any instrument to which AMH may be a party, (g) any change in tax or other laws of the United States, or any state thereof, or any political subdivision of any of them, (h) any title defect or encumbrance or any eviction from the Models or any part thereof by title paramount or otherwise, (i) any change, waiver, extension, indulgence or failure to perform or comply with, or other action or omission in respect of, any obligation or liability of AMH contained in this Lease, or (j) any other event or circumstance whatsoever, whether or not similar or dissimilar to any of the foregoing and whether or not Builder shall have notice or knowledge of any of

the foregoing. Builder hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender this Lease except in accordance with the express terms hereof. Except for any overpayments of Rent (which overpayments shall be credited against the next installment of Rent then becoming due), each payment of the Rent shall be final, and Builder shall have no right to seek to recover all or any part of such payment from AMH for any reason whatsoever, except for prorated rent which shall be credited to the following month's rent. It is the purpose and intent of the parties that the Rent paid shall be net to AMH and that all costs and expenses and charges related to the Models, except for debt service and general overhead of AMH, shall be paid by Builder.

12. AMH's Voluntary Expenses.

Builder's obligation to pay those costs, expenses, and charges provided for in this Lease does not include the obligation to pay any cost, expense or charge voluntarily incurred by AMH. However, if AMH incurs any cost, expense or charge which is the obligation of Builder because Builder has failed to pay the same and has done so in order to protect its interest in the Model(s), upon fifteen (15) days written notice therefor to Builder, Builder shall be in default, after expiration of all applicable grace and cure periods, and shall reimburse AMH immediately upon Builder's receipt of an invoice from AMH therefor.

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13. Taxation.

13.1 Payment of Real Property Taxes. Builder shall pay prior to delinquency all "Real Property Taxes" (as defined below) and "Personal Property Taxes" (as defined below) levied against the Models and property contained therein during the term of this Lease and shall, upon request, provide AMH with evidence of payment satisfactory to AMH. If Builder fails to pay any such taxes, AMH shall have the right, but not the obligation, to pay the same after delivery to Builder within thirty (30) days notice, in which case Builder shall repay such amount to AMH with Builder's next Rent installment together with interest on such delinquent tax installment at the rate of eighteen percent (18%) per annum, (the "Interest Rate"). Real Property Taxes for any tax year during which the Lease Term expires or is terminated shall be prorated.

13.2 Joint Assessment. In the event the Models are not separately assessed, Builder's liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by AMH from the respective valuations assigned in the Assessor's work sheets or such other information as may be reasonably available to AMH, with AMH's reasonable and good faith determination thereof being conclusive.

13.3 Definition of Taxes. As used in this Lease, the term "Real Property Tax" shall include any form of assessment, levy, penalty or tax (other than inheritance, estate, net income or franchise taxes) imposed by any authority having the direct or indirect power to tax, including any city, county, state or federal government or any school, agricultural, lighting, drainage or other improvement district thereof, whether such tax is (a) upon, allocable to or measured by the area or value of the Model or the rental payable hereunder, including without limitation any gross income tax or excise tax levied by the state, city or federal government or any political subdivision thereof, being assessed with respect to the receipt of such rental; or (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Builder of the Model(s) or any portion thereof; or (c) upon or measured by the value of Builder's personal property, equipment or fixtures located in the Model(s); or (d) upon this transaction or any document to which Builder is a party creating or transferring an interest or an estate in the Models; and (e) whether or not any such tax is now customary or within the contemplation of the parties. As used herein, the term "Personal Property Tax" shall include all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Builder contained in the Models. When possible, Builder shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of AMH. Builder shall have no obligation to pay corporate or personal income taxes imposed on AMH or its officers, directors, employees or shareholders which may become a lien on the Model(s).

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14. Use.

The Models shall be used and occupied by Builder only as model homes and/or as sales offices for the marketing of other homes in the respective Projects in compliance with applicable laws and ordinances and for no other purpose. Builder is the party which designed and constructed the Models and agrees that they are in every way suitable for the use which Builder intends to make of them.

15. Utilities.

Builder shall pay, prior to delinquency, bills for all water, gas, heat, light, power, telephone, sewage, air conditioning and ventilating, scavenger, janitorial, landscaping and all other materials, services and all other utilities of every kind and nature supplied to the Models.

16. Maintenance and Repairs.

During the Lease Term, the Models shall be kept in good condition with no deferred maintenance on landscaping, equipment or fixtures. Builder, at Builder's expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the Models. The Builder shall also maintain the exterior and the interior surfaces of the Models and maintain all walls, floors, windows, doors and plate glass, and maintain all plumbing, heating, air conditioning, ventilating, electrical and lighting facilities and equipment within the Models and all sidewalks, driveways, parking lots, fences and signs located in the areas which are adjacent to and included with the Models. Builder, at its sole cost and expense, agrees to repair any damage to the Models caused by or in connection with the removal of any articles of personal property, business or trade fixtures, machinery, equipment, or furniture.

17. AMH's Right to Maintain.

If Builder fails to perform Builder's maintenance obligations as set forth in Paragraph 16 above, AMH may give Builder written notice to do such acts as are reasonably required to properly maintain the Models. If Builder fails to do the work and diligently prosecute it to completion, then AMH shall have the right (but not the obligation) to do such acts and expend such funds as are reasonably required to perform such work at the expense of Builder. Any amount so expended by AMH shall be paid by Builder within five (5) business days after written demand with interest at the Interest Rate of 3-month LIBOR Rate as published by the Wall Street Journal on the first business day of the prior month, plus 650 basis points from the date of such work. AMH shall have no liability to Builder for any inconvenience or interference with the use of the Models by Builder as a result of performing any such work.

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18. Entry for Inspection.

AMH and AMH's agents shall have the right during regular business hours to enter the Models to inspect the same or to maintain or repair the Models or to show the Models to prospective purchasers or lenders in accordance with the terms of this Lease. If Builder is in breach of its repair and maintenance obligations and AMH elects to perform the same, Builder hereby waives any claim for abatement of Rent or for damages for any injury or inconvenience to or interference with Builder's business, any loss of occupancy or quiet enjoyment of the Models, and any other loss occasioned thereby.

19. Sales Reports.

19.1 Frequency. Builder shall deliver the "Sales Reports" (as defined in the Purchase Agreement) to AMH once a month. The Sales Report shall be faxed and then mailed to AMH promptly following its tabulation. However, at any time demanded in writing and in good faith by AMH, Builder shall provide AMH with additional sales reports, if required by AMH. Such additional sales reports are required to disclose only the same type of information as is found in, repeated in, or summarized in the Sales Reports.

19.2 Confidentiality. AMH shall keep confidential all sales information and Sales Reports obtained from Builder and shall disclose it only to those who (a) legitimately and for a valid purpose require such information from AMH as a condition to doing business with AMH, and (b) who likewise enter into written agreements covenanting to keep such information confidential unless the prior written consent of Builder to disclose same is first obtained. Under no circumstances shall AMH disclose sales information to any home builder or developer.

19.3 Supplemental Reports. Promptly upon request, Builder shall deliver to AMH copies of all escrow closing statements and marketing reports (including without limitation pricing studies) which relate to the Models, which are prepared in the ordinary course of Builder's business and which relate to the sales and marketing of homes or condominiums within a given subdivision designated in the Model Chart, as revised from time to time, in which there is then one or more Models then covered hereunder.

20. Liens.

20.1 Generally. Builder shall keep each Model free from any liens arising out of work performed, materials furnished or obligations incurred by or

on behalf of Builder. Builder shall indemnify, defend and hold AMH and each Model harmless from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Builder. If Builder fails to obtain the release of any lien within twenty (20) days of its imposition AMH may require Builder to post a bond equal to the greater of (a) one hundred twenty percent (120%) of the amount of the lien or encumbrance or (b) such security as may be required by local law in order to dispute the imposition of the lien, and AMH shall have the right (if Builder fails

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to post the bond), but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien notwithstanding the fault or relative fault of the parties. All such sums paid by AMH and all expenses incurred by it in connection therewith including attorney's fees and costs shall be payable to AMH by Builder on demand with interest at the Interest Rate.

20.2 Builder's Right to Challenge. Notwithstanding the provisions of Paragraph 20.1 above, so long as Builder has posted security as is required by local law to challenge the imposition of a lien of the type described in Paragraph 20.1 above and so long as Builder is processing its challenge in a diligent manner which does not create a risk that the lien shall be foreclosed or which prevents AMH from selling the Model(s) in question, AMH shall allow Builder to prosecute such challenge. However, AMH's cooperation with Builder's challenge shall not constitute a waiver or release of any right of AMH against Builder. Builder shall be responsible in all respects for any and all damages suffered by AMH as a result of Builder's challenge. AMH shall be entitled to proceed directly against Builder to recover such damages; AMH is not required to rely upon the posted security to make it whole in such matter.

20.3 Notices of Non-Responsibility. AMH shall have the right at all times to post and keep posted on the Models any notices of non-responsibility or other notices permitted or required by law for the protection of AMH, the Models and other parties having an interest therein, from liability for mechanics' and materialmen's liens.

21. Indemnity of AMH and Property by Builder.

Builder shall indemnify and hold AMH, its shareholders, officers, directors, employees, financial partners, and lenders ("AMH and Related Persons") and the Models harmless from and against any and all claims of liability for any injury or damage to any person or property arising from Builder's prior ownership and/or use of the Models, or from the conduct of Builder's business, or from any activity, work or thing done, permitted or suffered by Builder in or about the Models, the Project or elsewhere. Builder shall further indemnify and hold AMH and Related Persons and the Models harmless from and against any and all claims arising from any breach or default in the performance of any obligation of Builder to be performed under this Lease, or arising from any negligence of Builder or Builder's agents, contractors or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon. In the event any action or proceeding is brought against AMH or Related Persons by reason of any such claim, Builder, upon notice from AMH or Related Persons, shall defend same at Builder's expense by counsel reasonably satisfactory to AMH or Related Persons. Builder, as a material part of the consideration to AMH and Related Persons, hereby assumes all risk of damage to property or injury to persons, in, upon or about the Models arising from any cause. Except for the negligence or intentional misconduct of AMH and Related Persons or its contractors or employees, Builder hereby waives all claims in respect thereof against AMH and Related Persons. Other than as set forth above, Builder hereby indemnifies, defends and agrees to hold AMH and Related Persons harmless from any and all liability arising out of the ownership of the Models during the Lease Term. In addition to the foregoing, Builder shall indemnify and hold

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AMH and Related persons and their successors and assigns harmless from and against any and all claims, demands, causes of action, damages, costs, expenses, lawsuits and liabilities, at law or in equity, of every kind or nature whatsoever, directly or indirectly arising out of or attributable to Hazardous Materials (as defined on Exhibit "H"), affecting the Model(s) or the Project including the use, generation, storage, release, threatened release, discharge, disposal or presence of Hazardous Materials on, under or about the Models (whether occurring prior to or during the term of the ownership of the Models by AMH or otherwise and regardless of by whom caused, whether by Builder or any predecessor in title or any owner of land adjacent to the Models or any other third party, or any employee, agent, tenant of any other third party, or any employee, agent, tenant, contractor or subcontractor of Builder, or any predecessor in title or any such adjacent land owner) including, without limitation; the following as they relate to the Model(s) or the Project(s):

1) Claims of third parties (including governmental agencies) for injury to or death of any person or for damage to or destruction of any property;

2) Claims for response costs, clean-up costs, costs and

expenses of removal and restoration, including fees of attorneys and experts, and costs of determining the existence of Hazardous Materials and reporting same to any governmental agency;

3) Any and all other claims for expenses or obligations, including attorneys' fees, costs, and other expenses related to Hazardous Materials and the Models;

4) Any and all penalties threatened, sought or imposed on account of a violation of any Hazardous Materials Laws;

5) Any loss occasioned by diminution in the value of the Models which may result from any of the foregoing, and (b) soils settlement, soils subsidence, and other soils problems and defects. Notwithstanding the foregoing, Builder's indemnification and defense obligations to AMH and Related Persons as set forth in this Paragraph 21 shall not apply to any claim, liability, loss or expense arising out of the acts, including negligent or intentional wrongful acts, or failures to act by AMH and/or Related Persons, or AMH's contractors or employees.

22. Insurance.

22.1 Liability Insurance. The Builder shall, at Builder's sole cost and expense, procure and maintain at all times during the term of this Lease a policy of commercial general liability insurance insuring Builder, and naming AMH as an additional insured, against any liability arising out of the ownership, use, occupancy, or maintenance of the Models and appurtenant areas. Such insurance shall at all times be in an amount of not less than \$1,000,000.00 for injury to or death of any one, or more than one, person in any one accident or occurrence, and in an amount of not less than \$500,000.00 for liability for property damage. Builder shall provide AMH with certificates of insurance evidencing such insurance coverage prior to the applicable Lease Commencement Date and whenever reasonably requested by AMH. No policy of liability

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insurance procured by or on behalf of Builder as required hereunder shall be cancelable or subject to reduction of coverage or other modification except at Builder's expense after thirty (30) days prior written notice to AMH by the insurer. All such policies shall be written as primary policies, not contributing with and not in excess of coverage which AMH may carry. Builder shall, within thirty (30) days prior to the expiration of such policy, furnish AMH with evidence of renewals or binders. Builder shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Builder provided such blanket policies expressly afford coverage for the Models and to Builder as required by this Lease.

22.2 Property Insurance. Builder, at Builder's expense, shall procure and maintain at all times during the term of this Lease a policy or policies of insurance covering loss or damage to the Models in the amount of the full replacement value thereof (exclusive of Builder's trade fixtures and equipment but including all options, extras and upgrades) providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, sprinkler leakage and special extended peril (all-risk). Certificates evidencing such insurance shall be delivered to AMH prior to the Lease Commencement Date. Such insurance shall provide for payment of loss thereunder to AMH or secured lenders or partners/financiers as their interests may appear.

22.3 Waiver of Subrogation. AMH and Builder each hereby waive any and all rights of recovery against the other and against the officers, employees, agents and representatives of the other, on account of loss or damage occasioned to such waiving party of its property or the property of others under its control caused by fire or any of the extended coverage risks described above to the extent that such loss or damage is required to be insured against under this Lease. The insuring party shall, upon obtaining the policies of insurance required under this Lease, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

23. Damage or Destruction.

If a Model is damaged, whether partially or completely, by any casualty at any time during the Lease Term, Builder shall have the option of either (i) repairing such damage and rebuilding the Model at Builder's sole cost and expense (for any costs not covered by insurance) as soon as reasonably possible and this Lease shall continue in full force and effect, or (ii) terminating the Lease by paying the "Release Price" for the Model as set forth in Exhibit "C" hereof. In either event, there shall be no abatement of Rent during any period of repair or reconstruction unless caused by AMH. Furthermore the Model shall be reconstructed to the same plans and specifications as originally constructed and finished in first class, lien free and new condition.

24. Assignment & Subletting.

24.1 AMH's Consent Required. Builder shall not assign, transfer, mortgage, pledge, hypothecate or encumber (referred to collectively as "Assignment") this Lease or any interest

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herein, and shall not sublet the Models or any part thereof, without the prior written consent of AMH, and any attempt to do so without such consent being first had and obtained shall be wholly void and shall constitute a breach of this Lease, subject to applicable cure and grace periods. The foregoing provisions shall not apply to any Assignment by Builder to any affiliate or successor in interest of Builder, and AMH's consent shall not be required so long as Builder provides AMH with prior notice of such an Assignment. Notice is hereby given of Builder's and Guarantor's intention to form "drop down" subsidiaries to which all assets, liabilities and obligations will be transferred concurrent with the Builder's and Guarantor's merger into Homeplex Mortgage Investment Corporation (Homeplex). Homeplex will sign a guarantee of the lease concurrently with the merger. Notwithstanding any contrary provision herein, AMH shall not unreasonably withhold or delay its consent to any collateral assignment or other encumbrance of the Lease by Builder to any and all institutional lenders with loans secured by interests in the Projects from time to time.

24.2 No Release of Builder. No consent by AMH to any assignment or subletting by Builder, nor any Assignment to an affiliate of Builder, shall relieve Builder of any obligation to be performed by the Builder under this Lease, whether occurring before or after such consent, assignment, subletting or after Assignment to an affiliate of Builder. The consent by AMH to any assignment or subletting shall not relieve Builder from the obligation to obtain AMH's express written consent to any other assignment or subletting. The acceptance of Rent by AMH from any other person shall not be deemed to be a waiver by AMH of any provision of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

24.3 Collateral Assignment by AMH. AMH shall have the right, without obtaining the consent of Builder, to assign this Lease as collateral to secure repayment of financing obtained by AMH. Such an assignment for collateral purposes shall not affect any of the rights and duties of the parties hereunder.

25. Subordination.

25.1 Generally. This Lease, at AMH's election, shall be subject and subordinate to the lien of any mortgages or deeds of trust in any amount or amounts whatsoever hereafter placed on or against the land or improvements or either thereof, or on or against AMH's interest or estate therein, without the necessity of the execution and delivery of any further instruments on the part of Builder to effectuate such subordination. Such election may be made by AMH by unilaterally recording a declaration of subordination in the official records of the county in which the Models are located. Such recorded, written election shall have the effect of subordinating this Lease to the mortgage or deed of trust described in such election. Any mortgagee or beneficiary of a deed of trust may also elect to have this Lease prior to the lien of its mortgage or deed of trust by giving notice thereof to AMH and to Builder.

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25.2 Subordination Agreements/Non-Disturbance. Builder covenants and agrees to execute and deliver upon demand without charge therefore such further instruments evidencing such subordination of this Lease to such mortgages or deeds of trust as may be reasonably required by AMH. If requested, AMH shall provide Builder with non-disturbance and attornment agreements from secured parties for Builder's execution concurrently with closing and executing the lease.

25.3 Quiet Enjoyment. AMH covenants and agrees with Builder that upon Builder paying Rent and other monetary sums due under the Lease and performing its covenants and conditions, Builder shall and may peaceably and quietly have, hold and enjoy the Models for the Lease Term.

25.4 Covenant to Pay. So long as Builder has paid the rent when due, AMH covenants and agrees to pay when due the obligations under all Deeds of Trust encumbering the Models(s) and in the event AMH fails to satisfy any obligation under any said Deed of Trust, Builder shall have the right, but not the obligation, to cure any said default and AMH shall reimburse Builder therefore, immediately on demand. AMH shall give Builder prior written notice of any material modifications to any deed of trust encumbering a model which would materially affect Builder rights under this Lease.

26. Default; Remedies.

26.1 Default. The occurrence of any of the following with respect to any Model shall constitute a default of this Lease by Builder with respect to that Model, or, at the election of AMH, with respect to all the Models.

26.1.1 Any failure by Builder to pay the Rent under Paragraph

4.1 and 4.2 above after becoming due, it being understood that BUILDER SHALL HAVE NO GRACE PERIOD AND SUCH FAILURE SHALL BE AN IMMEDIATE DEFAULT HEREUNDER.

26.1.2 The abandonment or vacation of a Model by Builder without the written consent of AMH as provided in Paragraph 5.2 above, it being understood, however, that if Builder promptly provides AMH with a Termination Notice in connection with such vacation or abandonment, Builder shall have the right to terminate the Lease for the Model in question, provided that the minimum lease term, as shown on Exhibit "G", has expired or, pursuant and subject to the provisions of Paragraph 5.2 above, in which event Builder shall not be in default hereunder so long as (i) Builder pays AMH the appropriate Release Price for such Model, if applicable, and (ii) Builder remains obligated to pay Rent for such Model (with the Lease for such Model to remain in effect) for a period of at least ninety (90) days beginning on the date the Termination Notice was received by AMH. Builder shall have five (5) days after receiving written notification from AMH to cure the unauthorized abandonment or vacation of a Model by

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Builder. If Builder is in default under any provisions of this Paragraph 26, Builder may not terminate, assign or transfer the lease on any unit nor attempt to sell any unit without the prior written consent of AMH.

26.1.3 A failure by Builder to observe and perform any other material provisions of this Lease to be observed or performed by Builder with respect to any Model, which failure continues for thirty (30) days after written notification from AMH to Builder of Builder's failure to observe or perform the obligation in question; provided, however, if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Builder shall not be deemed to be in default if Builder, within such period, commences such cure and thereafter diligently prosecutes the same to completion.

26.1.4 A default by Builder of its obligations under the Purchase Agreement, taking into account all applicable grace and cure periods, including without limitation the obligations of Builder set forth in Paragraph 4 therein.

26.1.5 The making by Builder of any general assignment or general arrangement for the benefit of creditors; the filing by or against Builder of a petition to have Builder adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Builder, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of Builder's assets or of Builder's interest in this Lease, where possession is not restored to Builder within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Builder's assets or of Builder's interest in this Lease where such seizure is not discharged within thirty (30) days. Builder may not terminate any lease on any unit while a default exists under this Paragraph 26.1.5.

26.2 Remedies. In the event of any such default by Builder with respect to any Model, AMH may, at any time after any applicable grace period has expired, exercise any of the following rights and remedies with respect to that Model or with respect to all Models, with notice and demand, and without limiting AMH in the exercise of any right or remedy at law or in equity which AMH may have by reason of such default or breach:

26.2.1 Maintain this Lease in full force and effect and recover the Rent and other monetary charges as they become due, without terminating Builder's right to possession, irrespective of whether Builder shall have abandoned the Model or other Models. In the event AMH elects to not terminate the Lease, AMH shall have the right to attempt to re-let the Model or the Models at such rent and upon such conditions and for such a term as AMH deems desirable. In this connection, AMH shall have the right to enter into an agreement to sell the Model or Models, and AMH shall have the right to take all acts necessary to maintain or preserve the Model or Models as AMH deems reasonable and necessary without being deemed to have elected to terminate the Lease, including removal of all persons and property from the Model or Models by lawful means; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Builder. In the event any such reletting occurs, this Lease shall terminate automatically upon the new tenant taking possession of the Model or

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Models. If AMH sells the Model or Models, the Lease shall terminate automatically upon the close of escrow for such Model or Models.

26.2.2 Terminate Builder's right to possession of a Model or Models by any lawful means, in which case this Lease shall terminate and Builder shall immediately surrender possession of the designated Model or Models to AMH. In such event AMH shall be entitled to recover from Builder all damages incurred by AMH by reason of Builder's default including without limitation thereto, the following: (a) the amount of any unpaid Rent which had been earned at the time of such termination by AMH plus interest thereon from the date of the default at the rate of 18% per annum, plus (b) the amount by which the unpaid rent which would have been earned after termination by AMH until the time of award exceeds the amount of such Rental loss that is proved could have been reasonably avoided

plus interest on such excess from the date of termination at the rate of eighteen percent (18%) per annum by law; plus (c) the amount by which the unpaid Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that is proved could be reasonably avoided by reletting or selling or otherwise; plus (d) any other amount necessary to compensate AMH for all the detriment proximately caused by Builder's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; plus (e) at AMH's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable state law. Upon any such termination and re-entry AMH shall have the right to make any reasonable repairs, alterations or modifications to the Models which AMH in its sole discretion deems reasonable and necessary. As used in clause (c) of the second sentence of this subparagraph, the "worth at the time of award" is computed by discounting future rents payable for the remainder of the Lease Term at the discount rate of the U.S. Federal Reserve bank at the time of award plus one percent (1%).

26.3 Late Charges. Builder hereby acknowledges that late payment by Builder to AMH of Rent and other sums due hereunder will cause AMH to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on AMH by the terms of any mortgage or trust deed covering the Models. Accordingly, if any installment of Rent or any other sum due from Builder shall not be received by AMH or AMH's designee when due, Builder shall pay to AMH a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs AMH will incur by reason of late payment by Builder. Acceptance of such late charge by AMH shall in no event constitute a waiver of Builder's default with respect to such overdue amount, nor prevent AMH from exercising any of the other rights and remedies granted hereunder.

26.4 Default by AMH. AMH shall not be in default unless AMH fails to perform obligations required of AMH after receiving notification of such failure from Builder. However, if the cure of the default cannot be completed immediately, AMH shall have a reasonable period of time to complete the cure of such default provided that (a) AMH commences to cure such default immediately upon receipt of Builder's notice, and (b) AMH diligently and without interruption pursues such cure to completion.

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26.5 No Waiver of Remedies. AMH's exercise of any remedy provided for herein with respect to a Model or the Models shall not preclude pursuit of any other remedy provided for herein or of any other remedy provided by law. AMH's exercise of any remedy provided for herein shall not constitute a forfeiture or waiver of any monthly installment of Rent payable to AMH hereunder or of any damages accruing to AMH by reason of Builder's violation of any of the terms, provisions and covenants herein contained. Forbearance by AMH to enforce one or more of the remedies herein provided shall not be deemed or construed to constitute a waiver of any other violation or default. The loss or damage that AMH may suffer by reason of termination of this Lease or the deficiency from any reletting as provided for above shall include the expense of repossession, necessary travel costs from Orange County, California to the Model or Models to take such action as may be required, the costs of Conversion, the costs of (reletting including brokers commissions), marketing costs (including brokers commissions), any necessary alterations or repairs undertaken by AMH following possession, reasonable attorneys fees, and all other damages AMH may incur by reason of such default. The prevailing party in any suit or other action arising out of or in connection with this Lease shall be awarded reasonable attorneys' fees, reasonable expert and non-expert witness costs and expenses, and other reasonable costs and expenses, including reasonable travel costs, incurred in connection with that suit.

27. Guaranty.

AMH and Builder acknowledge and agree that the delivery by Builder to AMH of a guaranty of Builder's obligations pursuant to the Purchase Agreement and this Lease, executed by the Guarantor identified in Exhibit "F" attached to the Purchase Agreement, is a material consideration for AMH's execution of the Purchase Agreement and this Lease and that AMH would not execute and deliver the Purchase Agreement and this Lease but for such guaranty. Accordingly, concurrently with the execution and delivery of the Purchase Agreement and this Lease by Builder, Builder shall deliver to AMH a written guaranty executed by Guarantor in the form of Exhibit "F" attached to the Purchase Agreement.

28. Miscellaneous.

28.1 Estoppel Certificate. Builder shall, at any time upon not less than ten (10) days prior written notice from AMH execute, acknowledge and deliver to AMH a statement in writing (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the Rent and other charges are paid in advance, if any, and (b) acknowledging that there are not, to Builder's

knowledge, any uncured defaults on the part of AMH hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by a prospective purchaser or encumbrancer of the Model(s). Builder's failure to deliver such statement within such time shall be conclusive upon Builder (a) that this Lease is in full force and effect, without modification except as may be represented by AMH, (b) that there are no uncured defaults in AMH's performances and (c) that not more than one month's

20

Rent has been paid in advance. If AMH desires to finance or refinance said Models, or any part thereof, Builder hereby agrees to deliver to any lender designated by AMH such public financial statements of Builder as may be reasonably required by such lender. All such financial statements shall be received by AMH in confidence and shall be used only for the purposes herein set forth.

28.2 Entire Agreement. This instrument along with any exhibits and attachments hereto, and along with the Purchase Agreement and Exhibits thereto, constitutes the entire agreement between AMH and Builder relative to the Models, and this Lease and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed by both AMH and Builder. AMH and Builder agree hereby that all prior or contemporaneous oral or written agreements between and among themselves and their agents or representative relative to the leasing of the Models are merged in or revoked by this Lease.

28.3 Severability. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

28.4 Costs of Suit. Should AMH be made a party to any litigation instituted by any third party against Builder and/or AMH, arising out of AMH's ownership of the models, or for the foreclosure of any lien for labor or material furnished to or for Builder or any such other person acting on behalf of Builder or otherwise arising out of or resulting from any act or transaction of Builder or of any such other person, acting on behalf of the Builder, Builder covenants to save and hold AMH harmless from any judgment rendered against AMH or the Models, or any part thereof, and from all costs and expenses, including reasonable attorneys' fees, incurred by AMH in or in connection with such litigation. Any liens created by AMH shall be the sole responsibility of AMH.

28.5 Binding Effect; Choice of Law. All of the provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be deemed executed in the State of California and the laws of the State of California shall govern this Lease. All disputes with Builder shall be resolved in the court of appropriate jurisdiction in the State of California.

28.6 Surrender of Models. The voluntary or other surrender of this Lease, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of AMH, terminate all or any existing subleases or subtenancies, or may, at the option of AMH, operate as an assignment to it of any or all such subleases or subtenancies.

28.7 Holding Over. If Builder remains in possession of all or any part of the Models after the expiration of the Lease Term hereof, with or without the express or implied consent of AMH, such tenancy shall be from month to month only, and not a renewal hereof or an extension for any further term, and in such case, Rent and other monetary sums due hereunder shall be payable in the amount and at the time specified in this Lease and such month to month tenancy

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shall be subject to every other term, covenant and agreement contained herein. Notwithstanding anything contained in the immediately preceding sentence but subject to paragraph 5.2.1 above, after the expiration of the Lease Term with respect to any Model, AMH may terminate Builder's tenancy in that Model by giving Builder ten (10) days written notice of the termination.

28.8 Recording. Builder shall not record this Lease nor a memorandum of this Lease, and such recordation shall, at the option of AMH, constitute a non-curable default of Builder hereunder.

28.9 Notices. All notices, requests, demands and other communication given or required to be given hereunder shall be in writing and personally delivered or sent by United States registered or certified mail, return receipt requested, or sent by nationally recognized courier service such as Federal Express. The parties may also deliver notices to each other by electronically transmitted facsimile copies ("FAX"). Notices shall be addressed to the parties to the respective addresses set forth below. Delivery of any notice or other communication hereunder shall be deemed made on the date of actual delivery thereof to the address of the addressee, if personally delivered, and on the date indicated in the return receipt or courier's records as the date of delivery or as the date of first attempted delivery, if sent by mail or courier service. Any notice sent by FAX shall be deemed to be received as of the receipt of such FAX by a party, provided that such FAX notice is followed up within twenty-four (24) hours by any type of notice otherwise provided for in this

Paragraph 28.9. Any party may change its address for purposes of this Paragraph 28.9 by giving notice to the other party as herein provided.

TO BUILDER: MONTEREY HOME CORPORATION
6613 Scottsdale Road
Suite 200
Scottsdale, AZ 85250
Attn: Larry Seay
(602) 998-8700 (PHONE) (602) 998-9162 (FAX)

and

Tim White
Tiffany and Bosco
500 Dial Tower
1800 North Central Avenue
Phoenix, Arizona 85004
(602) 255-6000
(602)255-0103 FAX

TO AMH: c/o AMHM-1, L.P.
6 Upper Newport Plaza
Newport Beach, CA 92660
Attn: Tim Jagemann
(714) 252-8350 (PHONE) (714) 252-0828 (FAX)

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28.10 Time. Time is of the essence of this Lease with respect to the performance of every provision of the Lease in which time of performance is a factor.

28.11 Reasonableness. Whenever this Lease permits any party the right to request or require documents or other information, such party shall act reasonably and in good faith.

IN WITNESS WHEREOF, AMH and Builder have each executed this Lease as of the date first indicated above.

AMH: AMHM-1, L.P., a California limited partnership

Date of Execution: By: AMHW Corp., a California corporation
Dec. 20, 1996 General Partner

By: /s/ Paul N. Donnelly

Paul N. Donnelly, President

By: /s/ Tim Jagemann

Tim Jagemann, Executive Vice President

BUILDER: MONTEREY HOMES ARIZONA II, INC.
an Arizona Corporation

Date of Execution: By: /s/ Larry Seay VP
12/20/96

Larry Seay, Vice President

By: /s/ Clyde Dinnell

Clyde Dinnell

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List of Exhibits

- Exhibit "A" Model Chart and Purchase Price Schedule
- Exhibit "B" Early Termination Release Prices
- Exhibit "C" Form of Sales Report
- Exhibit "D" Form of Acknowledgment of Lease Term Expiration
- Exhibit "E" Buyer's Addendum #1 to Real Estate Purchase Contract
- Exhibit "F" Guarantee
- Exhibit "G" Minimum Lease Term and Termination Schedule
- Exhibit "H" Hazardous Materials Laws and Hazardous Materials Definition

Exhibit "A"
MONTEREY

<TABLE>
<CAPTION>
AMH / Monterey Homes - Phoenix

House #	Lease Subdivision Term	Model Name	Plan #	Lot #	Address	Town	State	Sq. Ft.	Annual Rent Total AMH	LIBOR + 640 b.p.
									Price	Monthly Rent

12.0%										
(1)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1	Canada Vistas 6 Months	Cancun	9312	16	8853 E. Calle Del Palo Verde	Scottsdale	AZ	2,905	\$ 355,000	\$
2	Grayhawk 1 Year (2)	Siena	9525	112	21055 N. 73rd Place	Scottsdale	AZ	2,885	\$ 260,000	\$

3	Palos Verdes 6 Months	Valencia	9527	3	5122 E. Wallace Avenue	Phoenix	AZ	3,047	\$ 270,000	\$
4	Palos Verdes 6 Months	Montecito	9522	5	5114 E. Wallace Avenue	Phoenix	AZ	2,298	\$ 200,000	\$

5	Sunridge 1 Year (2)	Veracruz	9317	25	13637 N. Mesquite Lane	Fountain Hills	AZ	3,710	\$ 440,000	\$

PHOENIX TOTAL								14,845	\$ 1,525,000	
\$15,250										

</TABLE>
<TABLE>
<CAPTION>
AMH / Monterey Homes - TUCSON

Rent House Lease #	Subdivision Term	Model Name	Plan #	Lot #	Address	Town	State	Sq. Ft.	Total AMH	LIBOR + 640 b.p.
									Price	Monthly

12.0%										
(1)										
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1	The Estates 1 Year (2)	Ventana	9403	38	2650 N. Castle Rock Drive	Tucson	AZ	4,279	\$405,000	\$4,050
2	The Estates 1 Year (2)	Taos	9402	39	2670 N. Castle Rock Drive	Tucson	AZ	3,672	\$435,000	\$4,350

3	The Retreat 1 Year (2)	Palazzo	9523	360	2273 N. Split Rock Place	Tucson	AZ	2,372	\$225,000	\$2,250
4	The Retreat 1 Year (2)	Valencia	9526	361	2257 N. Split Rock Place	Tucson	AZ	3,047	\$290,000	\$2,900
5	The Retreat 1 Year (2)	Flores	9521	362	2241 N. Split Rock Place	Tucson	AZ	1,968	\$230,000	\$2,700
6	The Retreat 1 Year (2)	Montecito	9522	363	2225 N. Split Rock Place	Tucson	AZ	2,298	\$220,000	\$2,200

7	The Park 1 Year	Barbados	9311	305	2241 N. Catalina Vista Loop	Tucson	AZ	2,630	\$260,000	\$2,600
8	The Park 1 Year	Veracruz	9317	306	2229 N. Catalina Vista Loop	Tucson	AZ	3,710	\$355,000	\$3,550
9	The Park 1 Year	Cancun	9312	307	2217 N. Catalina Vista Loop	Tucson	AZ	2,905	\$280,000	\$2,800

TUCSON TOTAL								26,881	\$2,700,000	\$27,000

MONTEREY TOTAL

41,726 \$4,225,000 \$42,250

</TABLE>

- (1) Start rate of 11.5% annual rate for initial 3 months, then adjustable monthly based on 90 LIBOR + 650 basis points
- (2) Lease term of one (1) year plus up to two (2) six (6) month options
 Monterey Homes
 Phoenix - 1
 Exhibit "B"
 L8EX6

<TABLE>
<CAPTION>

AMH / Monterey Homes - Phoenix

Early House Termination #	Minimum Sales Subdivision Price	Model Name	Plan #	Lot #	Address	Town	State
1	\$405,000 / \$400,000	Canada Vistas Cancun	9312	16	8853 E. Calle Del Palo Verde	Scottsdale	AZ
2	\$305,000 / \$300,000	Grayhawk Siena	9525	112	21055 N. 73rd Place	Scottsdale	AZ
3	\$305,000 / \$300,000	Palos Verdes Valencia	9527	3	5122 E. Wallace Avenue	Phoenix	AZ
4	\$235,000 / \$230,000	Palos Verdes Montecito	9522	5	5114 E. Wallace Avenue	Phoenix	AZ
5	\$495,000 / \$490,000	Sunridge Canyon Veracruz	9317	25	13637 N. Mesquite Lane	Fountain Hills	AZ

AMH / Monterey Homes - Tucson

- (1)
- (2)

Early House Termination #	Minimum Sales Subdivision Price	Model Name	Plan #	Lot #	Address	Town	State
1 (1)	The Estates (2)	Ventana	9403	38	2650 N. Castle Rock Drive	Tucson	AZ
2 (1)	The Estates (2)	Taos	9402	39	2670 N. Castle Rock Drive	Tucson	AZ
3 (1)	The Retreat (2)	Palazzo	9523	360	2273 N. Split Rock Place	Tucson	AZ
4 (1)	The Retreat (2)	Valencia	9526	361	2257 N. Split Rock Place	Tucson	AZ
5 (1)	The Retreat (2)	Flores	9521	362	2241 N. Split Rock Place	Tucson	AZ
6 (1)	The Retreat (2)	Montecito	9522	363	2225 N. Split Rock Place	Tucson	AZ
7 (1)	The Park (2)	Barbados	9311	305	2241 N. Catalina Vista Loop	Tucson	AZ
8 (1)	The Park (2)	Veracruz	9317	306	2229 N. Catalina Vista Loop	Tucson	AZ
9 (1)	The Park (2)	Cancun	9312	307	2217 N. Catalina Vista Loop	Tucson	AZ

</TABLE>

- (1) Appraised value as determined by independent appraisal at the time of Lease Termination Notice, plus \$5,000.00
- (2) Appraised value as determined by independent appraisal at the time of Lease Termination Notice.

EXHIBIT "C"

[OMITTED]

EXHIBIT "D"

FORM OF ACKNOWLEDGMENT OF LEASE TERM EXPIRATION

House No. _____

Builder: _____

City: _____

1. City: _____

2. Name of Project: _____

3. Legal Description:

The Lease Expiration Date for the Model described above was or will be the _____ day of _____, 19____.

Dated: _____

AMHM-1, L.P., a California limited partnership

MONTEREY HOMES ARIZONA II, INC. an Arizona Corporation

By: AMHW Corp., a California corporation, its general partner

By: _____
Its: _____

By: _____ By: _____
Its: _____ Its: _____

EXHIBIT "E"

Addendum #1 to Real Estate Purchase Contract

This Addendum, when executed together with the Real Estate Purchase Contract (the "Contract") will further describe the terms and understandings between Buyer and Seller concerning the property at:

Address: _____

IMPORTANT: The Terms and Conditions of This Addendum Shall Supersede Any Terms and Conditions to the Contrary in the Real Estate Purchase Contract:

1. Buyer understands that the above referenced property has been used as a model home and / or sales facility by Monterey Homes ("Builder"). Considering the purpose of a display model home, Buyer understands that although the home has not been used as a residence, there is a certain amount of wear and / or use that prevents Seller from warranting this property as a new home.

2. Since the model may have been constructed with certain options, features and landscaping, along with decorator items which are not available through the Builder and, since the date these items were installed, there exists the possibility that these options or items have been changed or discontinued due to availability, the Seller cannot warrant or be responsible for replacement of these items other than what is specifically written in the Agreement.

3. Seller agrees to provide the Buyer with a one-year home warranty effective upon closing or settlement and the remainder of the Builder's structural warranty applicable to the home, if any. The one-year warranty shall be either a commercially available warranty from a reliable company selected by Seller or the Builder's warranty. The terms and Conditions of the warranty(s) shall be per the Warranty Booklet(s) issued to Buyer at settlement or close of escrow.

4. EXTERIOR

LANDSCAPING - Builder may have installed and maintained various types of trees and shrubs and ground cover. There is no warranty on any landscaping items. Seller agrees to maintain the property in a diligent manner up to closing or settlement. Any necessary replacement of trees, shrubs, plants or grass during the escrow period will be at the sole discretion of the Seller. Replacements may not be restricted to same size or type of landscaping being replaced.

SPRINKLER SYSTEM - Underground sprinkler systems and related devices are not covered by warranty and are the sole responsibility of Buyer from close of escrow. Any adjustments or changes in the system after closing or settlement are the Buyer's responsibility.

CONCRETE DRIVES, WALKS AND PATIOS - Buyer accepts "AS IS".

LIGHTING-Builder may have attached additional exterior lights for display purposes. Seller will warrant these as part of the standard one year warranty. Other lighting not attached to the home will be removed at the

Builder's discretion and electrical capped off. Exterior light bulbs or globes are not warranted.

5. INTERIOR

SALES OFFICES AND DESIGN CENTERS - If areas of the interior of the home have been used as a sales office, design center or other model related use, Seller will make modifications to the space to conform with production homes of the same model and such work shall be complete at the time of closing or settlement.

1

HARD FLOOR COVERING & CARPETING - Since the model homes receive a great amount of foot traffic from interested buyers, there is no warranty coverage for minor wear, stains, scratches or discoloration due to fading. The carpet will be professionally cleaned prior to closing or settlement for your convenience.

WALLS - The models may be displayed with various types of wall treatments, including special decorator paints, wallpaper, paneling, built-in shelves, draperies or partial window coverings. The wallpaper and paneling will be accepted "AS IS". Cabinets and countertops throughout the home will be accepted "AS IS" with Buyer's acknowledgment that minor wear, scratches or discoloration could exist. Buyer understands that nails or nail holes for pictures do exist and there is possible fading around non-permanent wall decorations which are not included in this sale. Built-in units are accepted "AS IS" and are not the responsibility of Seller past closing or settlement. Draperies and window coverings are decorator items. Buyer understands that some are functional and some may not be functional but decorative only. Buyer accepts these items "AS IS". Buyer should be aware that installation of these window coverings might not support any additional draperies without reinforcements of rods to the wall. Walls painted any other than Builder's standard "white" may not be accurately matched and will not be touched up prior to closing or settlement. Any repairs by Seller that involve or affect a decorator treatment will not obligate Seller to match or replace that treatment. Seller may make substitutions at Seller's discretion.

6. GARAGE - If the garage has been used as a sales office or for some other model related use, Seller will make modifications to conform with normal production homes and such work shall be complete at the time of closing or settlement.

7. FENCING - Seller will provide rear yard fencing to conform with Builder's normal fencing policy, if any. Material will be the same as included in production homes delivered by Builder and the work shall be complete at time of close of escrow or settlement.

8. MISCELLANEOUS - Buyer understands that for security or control purposes Builder has made some modifications to the property or home. These include, but are not limited to: windows screwed shut, installation of additional walks and installation of wrought iron trap fences in the front yards. Seller will remove screws from windows, remove additional walkways in front yard and trap fences. Minor touch up will be done at Seller's discretion and is not an obligation of Seller. Builder may have obtained various use permits or variances from local governing bodies to merchandise the model homes. Buyer agrees to hold Seller harmless in their application or use by Buyer. Buyer agrees to allow Seller to change any item required by governing agencies to conform to code.

AGREED AND ACCEPTED:

SELLER.- AMHM-1, L. P.

BUYER: _____

By: AMHW Corp.
Its: General Partner

By: _____

Its: _____

2

IN WITNESS WHEREOF, the parties have executed this Guarantee as of the date and year first set forth above.

AMHM-1, L.P., a California limited partnership

By: AMHW CORP., a California corporation
its general partner

By: _____

Its: _____

Guarantor:

MONTEREY HOMES CONSTRUCTION II, INC.
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

MONTEREY HOMES CONSTRUCTION I, INC.
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

Signature blocks continued on page five and incorporated as part of this agreement.

4

MONTEREY HOMES CORPORATION
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

5

Exhibit "F"

Transaction No.: 22
Builder: Monterey
City: Phoenix, AZ
Tucson, AZ

GUARANTEE AGREEMENT

This Guarantee Agreement ("Guarantee") is made and entered into this _____ day of December, 1996, by and between AMHM-1, L.P., a California limited partnership ("AMH") and MONTEREY HOMES CONSTRUCTION II, INC., and to be executed by MONTEREY HOMES CONSTRUCTION I, INC., and MONTEREY HOMES CORPORATION, Arizona Corporations upon consummation of the merger ("Guarantor").

RECITALS

A. AMH has entered into a certain Revolving Model Home Purchase Agreement and a Revolving Model Home Lease Back Agreement with Monterey Homes Arizona II, Inc., an Arizona corporation (the "Purchase Agreement", the "Lease", and "Builder"). The Purchase Agreement and the Lease to which this Guarantee relates are designated by the same Transaction Number as this Guarantee.

B. The parties have agreed that Guarantor, which is the parent, affiliate or successor in interest of Builder, shall guarantee all the obligations of Builder under the Purchase Agreement and the Lease.

Now therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

1. Independent and Unconditional Guarantee. Guarantor hereby independently and unconditionally guarantees all the obligations of the Builder under the Purchase Agreement and the Lease. This Guarantee creates joint and several liabilities and obligations. AMH need not first make demand upon Builder nor shall AMH be required to exercise or exhaust any rights or remedies against Builder under the Purchase Agreement or the Lease Agreement prior to seeking to enforce the same against Guarantor.

2. Independent Remedies Against Guarantor. If Builder fails to remedy any default in the Purchase Agreement or Lease, AMH may pursue any remedies at law or in equity against Guarantor, without having to proceed first against

Builder, and Guarantor shall be jointly and severally liable to AMH with Builder for all expenses, including attorneys' fees incurred by AMH and all amounts paid by AMH in taking any such action or obtaining the performance of Builder or Guarantor.

1

3. No Releases. AMH and Builder may without notice to or the consent of Guarantor, at any time and from time to time (a) amend any provision of the Purchase Agreement or the Lease or any other documents evidencing the obligations of Builder under the Purchase Agreement or Lease, or (b) make any agreement with Builder to compromise, discharge or release Builder from any obligations under the Purchase Agreement or the Lease, and the guarantee made by Guarantor shall not be impaired or affected by any of the foregoing. Guarantor hereby waives any and all legal requirements that AMH institute any action or proceeding at law or in equity against Builder prior to proceeding to enforce this Guarantee as a condition precedent to bringing an action against the Guarantor pursuant to this Guarantee. Until all obligations of Builder under the Lease have been fulfilled in every way, Guarantor shall not be released by any act or thing which might, but for this Guarantee, be deemed a legal or equitable discharge of a surety including any act by AMH which might have the effect of destroying Guarantor's rights of subrogation against Builder, or by reason of any waiver, extension, modification, forbearance or delay of AMH or its failure to proceed promptly or otherwise against either Builder or Guarantor. Guarantor hereby expressly waives and surrenders any defense to this liability under this Guarantee based upon any of the foregoing acts, things, agreements or waivers.

4. Cumulative Remedies. All remedies afforded to AMH by reason of this Guarantee are separate and cumulative remedies and none of such remedies, whether exercised by AMH or not, shall be deemed to be in exclusion of any one of the other remedies available to AMH, and shall not in any way limit or prejudice any other legal or equitable remedy available to AMH.

5. Release Upon Satisfaction of Obligations. Notwithstanding anything herein contained, this Guarantee shall become null and void upon the satisfaction of all duties of Builder under the Purchase Agreement and the Lease, at which time, AMH shall return all original copies of this Guarantee to Guarantor and deliver to Guarantor such instrument of release as Guarantor may reasonably request.

6. Notices. All notices, requests, demands and other communication given or required to be given hereunder shall be in writing and personally delivered or sent by United States registered mail, return receipt requested, or sent by nationally recognized courier service such as Federal Express. The parties may also deliver notices to each other by electronically transmitted facsimile copies ("Fax"). Notices shall be addressed as follows:

To AMH: c/o AMHM-1, L.P.
6 Upper Newport Plaza
Newport Beach, CA 92660
ATTN.: Tim Jagemann
(714) 252-8350; (714) 252-0828 (Fax)

2

To Guarantor: Monterey Home Corporation
6613 Scottsdale Road, Suite 200
Scottsdale, AZ 85250
ATTN.: Larry Seay
(602) 998-8700
(602) 998-9162 (FAX)

and

Tim White
Tiffany and Bosco
500 Dial Tower
1800 North Central Avenue
Phoenix, AZ 85004
(602)255-6000
(602)255-0103 (FAX)

Delivery of any notice or other communication hereunder shall be deemed made on the date of actual delivery thereof to the address of the addressee, if personally delivered, and on the date indicated in the return receipt or courier's records as the date of delivery or as the date of first attempted delivery, if sent by mail or courier service. Any notice sent by FAX shall be deemed to be received as of the receipt of such FAX by a party, provided that, such FAX notice is followed up within twenty-four (24) hours by any type of notice otherwise provided for in this Paragraph. Any party may change its address for purposes of this Paragraph by giving notice to the other party as herein provided.

7. Choice of Law. This Guarantee is and shall be deemed to be a contract entered into pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. All disputes shall be resolved in a court of law in Orange County, California.

8. Successors and Assigns. This Guarantee shall inure to the benefit of AMH and the successors and assigns of AMH in and to that property which is the subject of the Purchase Agreement and the Lease. No consent of either Builder or Guarantor is required for any assignment by AMH of its rights in and to such property. This Guarantee shall be binding upon the successors and assigns of Guarantor.

9. Counterpart Execution. This Guarantee may be executed in two or more counterpart copies, all of which when taken together, shall constitute original copies and one and the same document.

3

IN WITNESS WHEREOF, the parties have executed this Guarantee as of the date and year first set forth above.

AMHM-1, L.P., a California limited partnership

By: AMHW CORP., a California corporation
its general partner

By: _____

Its: _____

Guarantor: MONTEREY HOMES CONSTRUCTION II, INC.
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

MONTEREY HOMES CONSTRUCTION I, INC.
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

signature blocks continued on page five and incorporated as part of this agreement.

4

MONTEREY HOMES CORPORATION
an Arizona Corporation

By: _____

Its: _____

By: _____

Its: _____

5

EXHIBIT "G"

Estimated Lease Term and Termination Schedule

<TABLE>
<CAPTION>

	Project	Model Name	Address	Estimated Lease Termination Date	Maximum Mandatory Lease Term*
	-----	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>	<C>
1.	Canada Vistas	Cancun	8853 E. Calle Del Palo Verde, Phoenix	07/01/97	6 Months
2.	Grayhawk	Siena	21055 N. 73rd Place, Scottsdale	07/01/98	12 Months
3.	Palos Verdes	Valencia	5122 E. Wallace Avenue, Scottsdale	07/01/97	6 Months

4.	Palos Verdes	Montecito	5114 E. Wallace Avenue, Scottsdale	07/01/97	6 Months
5.	Sunridge Cyn	Veracruz	13637 N. Mesquite Lane, Fountain Hls	07/01/98	12 Months
6.	The Estates	Ventana	2650 N. Castle Rock Drive, Tucson	07/01/98	12 Months
7.	The Estates	Taos	2670 N. Castle Rock Drive, Tucson	07/01/98	12 Months
8.	The Retreat	Palazzo	2273 N. Split Rock Place, Tucson	07/01/98	12 Months
9.	The Retreat	Valencia	2257 N. Split Rock Place, Tucson	07/01/98	12 Months
10.	The Retreat	Flores	2241 N. Split Rock Place, Tucson	07/01/98	12 Months
11.	The Retreat	Montecito	2225 N. Split Rock Place, Tucson	07/01/98	12 Months
12.	The Park	Babados	2241 N. Catalina Vista Loop, Tucson	01/01/98	1 Year
13.	The Park	Veracruz	2229 N. Catalina Vista Loop, Tucson	01/01/98	1 Year
14.	The Park	Cancun	2217 N. Catalina Vista Loop, Tucson	01/01/98	1 Year

* The lease may be terminated at Builder's option, subject to Section 5.2. Maximum lease term is three (3) years.

</TABLE>

Exhibit "H"

"Hazardous Materials Laws" shall mean all federal, state and local laws, ordinances, rules and regulations now and hereafter in force, as amended from time to time, in any way relating to or regulating human health or safety, or industrial hygiene or environmental conditions, or protection of the environment, or pollution or contamination of the air, soil, surface water or groundwater, and includes the Comprehensive Environmental Response, Compensation and Liability act of 1980, 42 U.S.C. ss. 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. ss. 6901, et seq., the Clean Water Act, 33 U.S.C. ss. 1251, et seq.

"Hazardous Materials" shall mean any substance or material that is described as a toxic or hazardous substance, waste or material or a pollutant or contaminant, or words of similar import, in any of the Environmental Laws, and includes asbestos, petroleum (including crude oil or any fraction thereof, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas useable for fuel, or any mixture thereof), petroleum products, polychlorinated biphenyls, urea formaldehyde, radon gas, radioactive matter, medical waste, and chemicals which may cause cancer or reproductive toxicity.

MONTEREY HOMES
STOCK OPTION PLAN

1. ESTABLISHMENT, PURPOSE AND DEFINITIONS.

- a) The Stock Option Plan (the "Option Plan") of Monterey Homes (the "Company"), is hereby adopted. The Option Plan shall provide for the issuance of incentive stock options ("ISOs") and nonqualified stock options ("NSOs").
- b) The purpose of this Option Plan is to promote the long-term success of the Company by attracting, motivating and retaining key executives, consultants and directors (the "Participants") through the use of competitive long-term incentives which are tied to stockholder interests by providing incentives to the Participants in the form of stock options which offer rewards for achieving the long-term strategic and financial objectives of the Company.
- c) The Option Plan is intended to provide a means whereby Participants may be given an opportunity to purchase shares of Stock of the Company pursuant to (i) options which may qualify as ISOs under Section 422 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), or (ii) NSOs which may not so qualify.
- d) The term "Affiliates" as used in this Option Plan means parent or subsidiary corporations, as defined in Section 424(e) and (f) of the Code (but substituting "the Company" for "employer corporation"), including parents or subsidiaries which become such after adoption of the Option Plan.

2. ADMINISTRATION OF THE PLAN

- a) The Option Plan shall be administered by the Compensation Committee (the "Committee") appointed by the Board of Directors of the Company from time to time (the "Board").
- b) The Committee shall consist entirely of directors qualifying as "non-employee directors" as such term is defined in Rule 16b-3 promulgated by the Securities and Exchange Commission (the "Committee"). Members of the Committee shall serve at the pleasure of the Board.
- c) The Committee may from time to time determine which employees of the Company or its Affiliates or other individuals or entities (each an "option holder") shall be granted options under the Option Plan, the terms thereof (including without limitation determining whether the option is an incentive stock option and the times at which the options shall become exercisable), and the number of shares of Stock for which an option or options may be granted.
- d) If rights of the Company to repurchase Stock are imposed, the Board or the Committee may, in its sole discretion, accelerate, in whole or in part, the time for lapsing of any rights of the Company to repurchase shares of such Stock or forfeiture restrictions.
- e) If rights of the Company to repurchase Stock are imposed, the certificates evidencing such shares of Stock awarded hereunder, although issued in the name of the option holder concerned, shall be held by the Company or a third party designated by the Committee in escrow subject to delivery to the option holder or to the Company at such times and in such amounts as shall be directed by the Board under the terms of this Option Plan. Share certificates representing Stock which is subject to repurchase rights shall have imprinted or typed thereon a legend or legends summarizing or referring to the repurchase rights.
- f) The Board or the Committee shall have the sole authority, in its absolute discretion, to adopt, amend and rescind such rules and regulations, consistent with the provisions of the Option Plan, as, in its opinion, may be advisable in the administration of the Option Plan, to construe and interpret the Option Plan, the rules and regulations, and the instruments evidencing options granted under the Option Plan and to make all other determinations deemed necessary or advisable for the administration of the Option Plan. All decisions, determinations and interpretations of the Committee shall be binding on all option holders under the Option Plan.

3. STOCK SUBJECT TO THE PLAN

- a) "Stock" shall mean Common Stock of the Company or such stock as may be changed as contemplated by Section 3(c) below. Stock shall include shares drawn from either the Company's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including without

limitation shares repurchased by the Company in the open market. The maximum shares of Common Stock that can be issued under this Option Plan is 225,000 shares, and the maximum shares of Common Stock that can be issued to any one person under this Option Plan is 50,000 shares.

- b) Options may be granted under the Option Plan from time to time to eligible persons. Stock options awarded pursuant to the Option Plan which are forfeited, terminated, surrendered or canceled for any reason prior to exercise shall again become available for grants under the Option Plan (including any option canceled in accordance with the cancellation regrant provisions of Section 6 (f) herein).
- c) If there shall be any changes in the Stock subject to the Option Plan, including Stock subject to any option granted hereunder, through merger, consolidation, recapitalization, reorganization, reincorporation, stock split, reverse stock split, stock dividend, combination or reclassification of the Company's Stock or other similar events, an appropriate adjustment shall be made by the Committee in the number of shares of Stock. Consistent with the foregoing, in the event that the outstanding Stock is changed into another class or series of capital stock of the Company, outstanding option to purchase Stock granted under the Option Plan shall become options to purchase such other class or series and the provisions of this Section 3(c) shall apply to such new class or series.
- d) The aggregate number of shares of Stock approved by the Option Plan may not be exceeded without amending the Option Plan and obtaining stockholder approval within twelve months of such amendment.

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4. ELIGIBILITY

Persons who shall be eligible to receive stock options granted under the Option Plan shall be those individuals and entities as the Committee in its discretion determines should be awarded such incentives given the best interests of the Company; provided, however, that (i) ISOs may only be granted to employees of the Company and its Affiliates and (ii) any person holding capital stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company or any Affiliate shall not be eligible to receive ISOs unless the exercise price per share of Stock is at least 110% of the fair market value of the Stock on the date the option is granted.

5. EXERCISE PRICE FOR OPTION GRANTED UNDER THE PLAN

- a) All ISOs and NSOs will have option exercise prices per option share not less than the fair market value of a share of the Stock on the date the option is granted, except that in the case of ISOs granted to any person possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate the price shall be not less than 110% of such fair market value. The price of ISOs or NSOs granted under the Option Plan shall be subject to adjustment to the extent provided in Section 3(c) above.
- b) The fair market value on the date of grant shall be determined based upon the closing price on an exchange on that day or, if the Stock is not listed on an exchange, on the average of the closing bid and asked prices in the Over the Counter Market on that day.

6. TERMS AND CONDITIONS OF OPTIONS

- a) Each option granted pursuant to the Option Plan shall be evidenced by a written stock option agreement (the "Option Agreement") executed by the Company and the person to whom such option is granted. The Option Agreement shall designate whether the option is an ISO or an NSO.
- b) The term of each ISO and NSO shall be no more than 10 years, except that the term of each ISO issued to any person possessing more than 10% of the voting power of all classes of stock of the Company or any Affiliate shall be no more than 5 years. Subsequently issued options, if Stock becomes available because of further allocations or the lapse of previously outstanding options, will extend for terms determined by the Board or the Committee but in no event shall an ISO be exercised after the expiration of 10 years from the date of its grant.
- c) In the case of ISOs, the aggregate fair market value (determined as of the time such option is granted) of the Stock to which ISOs are exercisable for the first time by such individual during any calendar year (under this Option Plan and any other plans of the Company or its Affiliates if any) shall not exceed the amount specified in Section 422(d) of the Internal Revenue Code, or any successor provision in effect at the time an ISO becomes exercisable.

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- d) The Option Agreement may contain such other terms, provisions and conditions regarding vesting, repurchase or other provisions as may be

determined by the Committee. To the extent such terms, provisions and conditions are inconsistent with this Option Plan, the specific provisions of the Option Plan shall prevail. If an option, or any part thereof, is intended to qualify as an ISO, the Option Agreement shall contain those terms and conditions which the Committee determine are necessary to so qualify under Section 422 of the Internal Revenue Code.

- e) The Committee shall have full power and authority to extend the period of time for which any option granted under the Option Plan is to remain exercisable following the option holder's cessation of service as an employee, director or consultant, including without limitation cessation as a result of death or disability; provided, however, that in no event shall such option be exercisable after the specified expiration date of the option term.
- f) As a condition to option grants under the Option Plan, the option holder agrees to grant the Company the repurchase rights as Company may at its option require and as may be set forth in a separate repurchase agreement. Any option granted under the Option Plan may be subject to a vesting schedule as provided in the Option Agreement and, except as provided in this Section 6 herein, only the vested portion of such option may be exercised at any time during the Option Period. All rights to exercise any option shall lapse and be of no further effect whatsoever immediately if the option holder's service as an employee is terminated for "Cause" (as hereinafter defined) or if the option holder voluntarily terminates the option holder's service as an employee. The unvested portion of the option will lapse and be of no further effect immediately upon any termination of employment of the option holder for any reason. In the remaining cases where the option holder's service as an employee is terminated due to death, permanent disability, or is terminated by the Company (or its affiliates) without Cause at any time, unless otherwise provided by the Committee, the vested portion of the option will extend for a period of three (3) months following the termination of employment and shall lapse and be of no further force or effect whatsoever only if it is not exercised before the end of such three (3) month period. "Cause" shall be defined in an Employment Agreement between Company and option holder and if none there shall be "Cause" for termination if (i) the option holder is convicted of a felony, (ii) the option holder engages in any fraudulent or other dishonest act to the detriment of the Company, (iii) the option holder fails to report for work on a regular basis, except for periods of authorized absence or bona fide illness, (iv) the option holder misappropriates trade secrets, customer lists or other proprietary information belonging to the Company for the option holder's own benefit or for the benefit of a competitor, (v) the option holder engages in any willful misconduct designed to harm the Company or its stockholders, or (vi) the option holder fails to perform properly assigned duties.
- g) No fractional shares of Stock shall be issued under the Option Plan, whether by initial grants or any adjustments to the Option Plan.

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7. USE OF PROCEEDS

Cash proceeds realized from the sale of Stock under the Option Plan shall constitute general funds of the Company.

8. AMENDMENT, SUSPENSION OR TERMINATION OF PLAN

- a) The Board may at any time suspend or terminate the Option Plan, and may amend it from time to time in such respects as the Board may deem advisable provided that (i) such amendment, suspension or termination complies with all applicable state and federal requirements and requirements of any stock exchange on which the Stock is then listed, including any applicable requirement that the Option Plan or an amendment to the Option Plan be approved by the stockholders, and (ii) the Board shall not amend the Option Plan to increase the maximum number of shares of Stock subject to ISOs under the Option Plan or to change the description or class of persons eligible to receive ISOs under the Option Plan without the consent of the stockholders of the Company sufficient to approve the Option Plan in the first instance. The Option Plan shall terminate on the earlier of (i) tenth anniversary of the Plan's approval or (ii) the date on which no additional shares of Stock are available for issuance under the Option Plan.
- b) No option may be granted during any suspension or after the termination of the Option Plan, and no amendment, suspension or termination of the Option Plan shall, without the option holder's consent, alter or impair any rights or obligation under any option granted under the Option Plan.
- c) The Committee, with the consent of affected option holders, shall have the authority to cancel any or all outstanding options under the Option Plan and grant new options having an exercise price which may be higher or lower than the exercise price of canceled options.
- d) Nothing contained herein shall be construed to permit a termination, modification or amendment adversely affecting the rights of any option holder under an existing option theretofore granted without the consent of

the option holder.

9. ASSIGNABILITY OF OPTIONS AND RIGHTS

Each ISO and NSO granted pursuant to this Option Plan shall, during the option holder's lifetime, be exercisable only by the option holder, and neither the option nor any right to purchase Stock shall be transferred, assigned or pledged by the option holder, by operation of law or otherwise, other than be will upon a beneficiary designation executed by the option holder and delivered to the Company or the laws of descent and distribution.

10. PAYMENT UPON EXERCISE

Payment of the purchase price upon exercise of any option or right to purchase Stock granted under this Option Plan shall be made by giving the Company written notice of such exercise, specifying the number of such shares of Stock as to which the option is

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exercised. Such notice shall be accompanied by payment of an amount equal to the Option Price of such shares of Stock. Such payment may be (i) cash, (ii) by check drawn against sufficient funds, (iii) such other consideration as the Committee, in its sole discretion, determines and is consistent with the Option Plan's purpose and applicable law, or (iv) any combination of the foregoing. Any Stock used to exercise options to purchase Stock (including Stock withheld upon the exercise of an option to pay the purchase price of the shares of Stock as to which the option is exercised) shall be valued in accordance with procedures established by the Committee. If accepted by the Committee in its discretion, such consideration also may be paid through a broker-dealer sale and remittance procedure pursuant to which the option holder (i) shall provide irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased Stock and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased Stock plus all applicable Federal and State income and employment taxes required to be withheld by the Company in connection with such purchase and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Stock directly to such brokerage firm in order to complete the sale transaction.

11. WITHHOLDING TAXES

- a) Shares of Stock issued hereunder shall be delivered to an option holder only upon payment by such person to the Company of the amount of any withholding tax required by applicable federal, state, local or foreign law. The Company shall not be required to issue any Stock to an option holder until such obligations are satisfied.
- b) The Committee may, under such terms and conditions as it deems appropriate, authorize an option holder to satisfy withholding tax obligations under this Section 11 by surrendering a portion of any Stock previously issued to the option holder or by electing to have the Company withhold shares of Stock from the Stock to be issued to the option holder, in each case having a fair market value equal to the amount of the withholding tax required to be withheld.

12. RATIFICATION

This Option Plan and all options issued under this Option Plan shall be void unless this Option Plan is or was approved or ratified by (i) the Board; and (ii) a majority of the votes cast at a stockholder meeting at which a quorum representing at least a majority of the outstanding shares of Stock is (either in person or by proxy) present and voting on the Option Plan within twelve months of the date this Option Plan is adopted by the Board. No ISOs shall be exercisable prior to the date such stockholder approval is obtained.

13. CORPORATE TRANSACTIONS

- a) For the purpose of this Section 13, a "Corporate Transaction" shall include any of the following stockholder-approved transactions to which the Company is a party:
 - (i) a merger or consolidation in which the Company is not the surviving entity,

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except for a transaction the principal purpose of which is to change the State of the Company's incorporation;

- (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company in liquidation or dissolution of the Company; or

(iii) any reverse merger in which the Company is the surviving entity but in which beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to holders different from those who held such securities immediately prior to such merger.

- b) Upon the occurrence of a Corporate Transaction, if the surviving corporation or the purchaser, as the case may be, does not assume the obligations of the Company under the Option Plan, then irrespective of the vesting provisions contained in individual option agreements, all outstanding options shall become immediately exercisable in full and each option holder will be afforded an opportunity to exercise their options prior to the consummation of the merger or sale transaction so that they can participate on a pro rata basis in the transaction based upon the number of shares of Stock purchased by them on exercise of options if they so desire. To the extent that the Option Plan is unaffected and assumed by the successor corporation or its parent company a Corporate Transaction will have no effect on outstanding options and the options shall continue in effect according to their terms.
- c) Each outstanding option under this Option Plan which is assumed in connection with the Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued to the option holder in connection with the consummation of such Corporate Transaction had such person exercised the option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price payable for such securities shall remain the same. In addition, the class and number of securities available for issuance under this Option Plan following the consummation of the Corporate Transaction shall be appropriately adjusted.
- d) The grant of options under this Option Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

14. REGULATORY APPROVALS

The obligation of the Company with respect to Stock issued under the Plan shall be subject to all applicable laws, rules and regulations and such approvals by any governmental agencies or stock exchanges as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Stock under the Plan until such time as any legal requirements or regulations have been met relating to the issuance of Stock, to their registration or qualification under the Securities Exchange Act of 1934, if applicable,

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or any applicable state securities laws, or to their listing on any stock exchange at which time such listing may be applicable.

15. NO EMPLOYMENT/SERVICE RIGHTS

Neither the action of the Company in establishing this Option Plan, nor any action taken by the Board or the Committee hereunder, nor any provision of this Option Plan shall be construed so as to grant any individual the right to remain in the employ or service of the Company (or any parent, subsidiary or affiliated corporation) for any period of specific duration, and the Company (or any parent, subsidiary or affiliated corporation retaining the services of such individual) may terminate or change the terms of such individual's employment or service at any time and for any reason, with or without cause.

16. MISCELLANEOUS PROVISIONS

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- a) The provisions of this Option Plan shall be governed by the laws of the State of Arizona, as such laws are applied to contracts entered into and performed in such State, without regard to its rules concerning conflicts of law.
 - b) The provisions of this Option Plan shall insure to the benefit of, and be binding upon, the Company and its successors or assigns, whether by Corporate Transaction or otherwise, and the option holders, the legal representatives of their respective estates, their respective heirs or legatees and their permitted assignees.
 - c) The option holders shall have no divided rights, voting rights or any other rights as a stockholder with respect to any options under the Option Plan prior to the issuance of a stock certificate for such Stock.

d) If there is a conflict between the terms of any employment agreement pursuant to which options under this Plan are to be granted and the provisions of this Plan, the terms of the employment agreement shall prevail

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 31, 1996 by and between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and William W. Cleverly ("Employee").

WHEREAS, the Company desires to obtain the services of Employee, and Employee desires to provide services to the Company, in accordance with the terms, conditions and provisions of this Agreement;

NOW, THEREFORE, the Company and Employee agree as follows:

1. Employment. Subject to the terms and conditions of this Agreement, the Company agrees to employ Employee as Chairman and Co-Chief Executive Officer of the Company, and Employee agrees to perform the duties associated with such positions diligently and to the reasonable satisfaction of the Company's Board of Directors. Employee will devote substantially all of his business time, attention and energies to the business of the Company and will comply with the policies and guidelines established by the Company from time to time.

2. Term. Employee will be employed under this Agreement for a term beginning on December 31, 1996 (the "Effective Date") and ending on December 31, 2001, unless Employee's employment is terminated earlier pursuant to Section 8.

3. Base Salary. The Company will pay Employee the Base Salary (as defined below). For purposes of this Agreement, the term "Base Salary" shall mean until December 31, 1997 an

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amount equal to \$200,000 per year. For each year thereafter during the term hereof, the Base Salary shall be equal to 105% of the previous Base Salary. Salary will be payable biweekly in accordance with the payroll practices of the Company in effect from time to time. All of Employee's compensation under this Agreement will be subject to deduction and withholding authorized or required by applicable law.

4. Initial Stock Options. On the Effective Date, the Company will grant Employee options to purchase 500,000 shares of the Company's common stock (the "Common Stock"). The terms of such options are set forth in a Stock Option Agreement, dated as of the Effective Date, between the Company and Employee, which is attached hereto as Exhibit_A.

5. Incentive Compensation. Employee will be entitled to incentive compensation based on the achievement of certain budgeted income projections specified in Exhibit_B hereto.

6. Employee Benefits. During the term of this Agreement, the Company will provide to Employee such fringe benefits and other employee benefit plans as are regularly maintained by the Company for its senior executives, in accordance with the policies of the Company in effect from time to time.

7. Reimbursement of Expenses. The Company will reimburse Employee for reasonable out-of-pocket business, entertainment and travel expenses incurred and documented in accordance with the policies of the Company in effect from time to time.

8. Termination.

(a) If Employee voluntarily terminates his employment with the Company or if

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the Company discharges Employee for Cause (as defined below), then the Company's obligations to pay the Base Salary and incentive compensation under this Agreement will terminate immediately, except for the payment of the Base Salary through the Date of Termination. For purposes of this Agreement, "Cause" is defined to mean only an act or acts of dishonesty by Employee constituting a felony and resulting or intended to result directly or indirectly in substantial personal gain or enrichment at the expense of the Company. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors (excluding Employee if he is then a director) at a meeting of the Board called and held for the purpose (after reasonable notice to Employee and an opportunity for Employee, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Employee was guilty of conduct meeting the criteria set forth above and specifying the particulars thereof.

(b) If Employee's employment with the Company is terminated by the Company without Cause or as a result of Employee's death or Permanent Disability (as defined below), then (i) the Company will be obligated to pay Employee's then current Base Salary pursuant to Section 3 (A) through the end of the stated term of employment hereunder in the event of termination by the Company without Cause or (B) for six months after the Date of Termination in the event of death or Permanent Disability and (ii) within 90 days after the Date of

Termination, the Company will pay Employee pro rated incentive compensation pursuant to Section 5 through the date of termination.

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For purposes hereof, "Permanent Disability" means a disability that results or, in the judgment of a physician mutually agreeable to the Company and Employee, is likely to result in Employee being unable to fulfill his duties under this Agreement for 180 consecutive days.

(c) Any termination by the Company for Cause or Permanent Disability pursuant to Section 8(a) or 8(b), respectively, 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 Employee's employment under the provision so indicated. For purposes of this Agreement, no such purported termination shall be effective without such Notice of Termination.

(d) For purposes of this Agreement, "Date of Termination" shall mean (i) if the Agreement is terminated as a result of Employee's death, the date of Employee's death, (ii) if the Agreement is terminated by Employee, the date on which he delivers a Notice of Termination to the Company, (iii) if this Agreement is terminated by the Company for Permanent Disability, 30 days after a Notice of Termination is given (provided that Employee shall not have returned to the performance of Employee's duties on a full-time basis during such 30-day period), or (iv) if Employee's employment is terminated by the Company 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 the Company, Employee notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the earlier of the fifth anniversary date of this

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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).

(e) Employee shall have no duty to mitigate the Company's obligations with respect to the payments set forth in this Section 8 by seeking other employment following his termination of employment, nor shall such obligations be subject to offset or reduction by reason of any compensation received by Employee from such other employment.

9. Restrictive Covenant. In consideration of the Company's agreement to employ Employee, until December 31, 2001, Employee hereby agrees that Employee will not, except in connection with the performance of his duties hereunder, directly or indirectly, either as an employee, partner, owner, director, adviser or consultant or in any other capacity:

(a) engage in the homebuilding business (a "Competing Business");

(b) recruit, hire or discuss employment with any person who is, or within the six month period preceding the date of such activity was, an employee of the Company (other than as a result of a general solicitation for employment);

(c) subject to the proviso below, solicit any customer or supplier of the Company for a Competing Business or otherwise attempt to induce any such customer or supplier to discontinue its relationship with the Company; or

(d) except solely as a limited partner or other form of passive investment with no

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management or operating responsibilities, engage in the land banking or lot development business; provided, however, that the foregoing shall not restrict (i) the ownership of less than 5% of a publicly-traded company or, (ii) in the event Employee's employment is terminated hereunder, engaging in the custom homebuilding business, including soliciting customers through a general solicitation and soliciting suppliers who serve the Company, but not to induce them to discontinue their relationship with the Company, or engaging in the production homebuilding business outside a 100 mile radius of any project of the Company or outside Northern California (which shall be deemed to mean the metropolitan area of San Jose and all of the State of California north of such area) or engaging in the land banking or lot development business.

Employee represents to the Company that he is willing and able to engage in businesses that are not Competing Businesses hereunder and that enforcement of the restrictions set forth in this Section 9 would not be unduly burdensome to Employee. The Company and Employee acknowledge and agree that the restrictions set forth in this Section 9 are reasonable as to time, area and scope of activity and do not impose a greater restraint than is necessary to protect the goodwill and other business interests of the Company, and Employee agrees that the Company is justified in believing the foregoing. If the

provisions of this Section 9 are found by a court of competent jurisdiction to contain limitations as to time, area or scope of activity that are not reasonable or not necessary to protect the goodwill or other business interests of the Company, then such court is hereby directed to reform such provisions to the minimum extent necessary to cause the limitations contained herein as to time, area and scope of activity to be reasonable and to impose a restraint that

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is not greater than necessary to protect the goodwill and other business interests of the Company. The provisions of this Section 9 will survive any termination of this Agreement, except that this Section 9 will not apply following termination of Employee by the Company without Cause.

10. Confidential Information. During the term of Employee's employment and for one year thereafter, without the Company's prior written consent, Employee will not use competitively or disclose to any third party (other than in accordance with the proper performance of his duties hereunder or as may be required by statute or court order) the proprietary information, trade secrets, business, marketing, advertising, strategic or business information, customer or prospect lists, work product, know-how or other confidential information of the Company ("Confidential Information"), all of which Employee acknowledges and agrees is the sole and exclusive property of the Company. Upon termination of his employment for any reason, Employee will immediately return to the Company all copies, in whatever form, of any Confidential Information that may be in his possession or control.

11. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable, and if no such modification will render it legal, valid and enforceable, then this Agreement will be construed as if not containing the provision held to be invalid, and the rights and obligations of the parties will be construed and enforced accordingly.

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12. Injunctive Relief. Employee acknowledges and agrees that the Company would be irreparably harmed by any violation of Employee's obligations under Sections 9 and 10 hereof and that, in addition to all other rights or remedies available at law or in equity, the Company will be entitled to injunctive and other equitable relief to prevent or enjoin any such violation.

13. Entire Agreement. This Agreement embodies the complete agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior written, or prior or contemporaneous oral, understandings or agreements between the parties that may have related in any way to the subject matter hereof. This Agreement may be amended only in writing executed by the Company and Employee.

14. Governing Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement, shall be governed by and construed in accordance with the internal laws, and not the law of conflicts, of the State of Arizona.

15. Notice. Any notice required or permitted under this Agreement must be in writing and will be deemed to have been given when delivered personally or by overnight courier service or three days after being sent by mail, postage prepaid, at the address indicated below or to such changed address as such person may subsequently give such notice of:

if to the Company: Homeplex Mortgage Investments Corporation
5333 North Seventh Street,
Suite 219
Phoenix, Arizona 85014
Attention: Corporate Secretary

if to Employee: William W. Cleverly
5627 N. Casa Blanca Road
Paradise Valley, Arizona 85253

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16. Arbitration. All disputes, claims and other matters in controversy arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or non-contractual, shall be determined by arbitration and shall be settled by three arbitrators, one of whom shall be appointed by the Company, one by the Employee and the third of whom shall be appointed by the first two arbitrators. Persons eligible to be selected as arbitrators shall be limited to attorneys who have been in practice at least 15 years specializing in employment law matters and who have had both training and experience as arbitrators ("Experienced Arbitrators"). If either such person fails to appoint an arbitrator within ten (10) days of a request in writing by the other such person to do so or if the first two arbitrators cannot agree on the appointment of a third arbitrator within thirty days, then such arbitrator shall be appointed by the American Arbitration Association (which appointment shall not be limited to Experienced Arbitrators if not made within the applicable time period). Except as to the selection of arbitrators which shall be as set forth above, the arbitration shall be conducted promptly and

expeditiously at such place in Phoenix, Arizona agreed to between the Company and the Employee in accordance with the Commercial Rules of Arbitration of the American Arbitration Association then in effect so as to enable the arbitrators to resolve the disputes, claims and other matters in controversy within forty-five (45) days of the commencement of the arbitration proceedings. The arbitrators shall base their award on applicable law and judicial

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precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based and may award temporary or permanent equitable relief. Judgement on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' resolution of the dispute shall be final,

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binding and non-appealable. The nonprevailing party shall bear the expenses of the arbitrators and the arbitration, including reasonable attorneys' fees and costs.

IN WITNESS WHEREOF, the Company and Employee have executed and delivered this Agreement as of the date first above written.

HOMEPLEX MORTGAGE INVESTMENTS
CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

EMPLOYEE

/s/ William W. Cleverly
.....
William W. Cleverly

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is dated as of December 31, 1996 by and between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and Steven J. Hilton ("Employee").

WHEREAS, the Company desires to obtain the services of Employee, and Employee desires to provide services to the Company, in accordance with the terms, conditions and provisions of this Agreement;

NOW, THEREFORE, the Company and Employee agree as follows:

1. Employment. Subject to the terms and conditions of this Agreement, the Company agrees to employ Employee as President and Co-Chief Executive Officer of the Company, and Employee agrees to perform the duties associated with such positions diligently and to the reasonable satisfaction of the Company's Board of Directors. Employee will devote substantially all of his business time, attention and energies to the business of the Company and will comply with the policies and guidelines established by the Company from time to time.

2. Term. Employee will be employed under this Agreement for a term beginning on December 31, 1996 (the "Effective Date") and ending on December 31, 2001, unless Employee's employment is terminated earlier pursuant to Section 8.

3. Base Salary. The Company will pay Employee the Base Salary (as defined below). For purposes of this Agreement, the term "Base Salary" shall mean until December 31, 1997 an amount equal to \$200,000 per year. For each year thereafter during the term hereof, the Base Salary

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shall be equal to 105% of the previous Base Salary. Salary will be payable biweekly in accordance with the payroll practices of the Company in effect from time to time. All of Employee's compensation under this Agreement will be subject to deduction and withholding authorized or required by applicable law.

4. Initial Stock Options. On the Effective Date, the Company will grant Employee options to purchase 500,000 shares of the Company's common stock (the "Common Stock"). The terms of such options are set forth in a Stock Option Agreement, dated as of the Effective Date, between the Company and Employee, which is attached hereto as Exhibit_A.

5. Incentive Compensation. Employee will be entitled to incentive compensation based on the achievement of certain budgeted income projections specified in Exhibit_B hereto.

6. Employee Benefits. During the term of this Agreement, the Company will provide to Employee such fringe benefits and other employee benefit plans as are regularly maintained by the Company for its senior executives, in accordance with the policies of the Company in effect from time to time.

7. Reimbursement of Expenses. The Company will reimburse Employee for reasonable out-of-pocket business, entertainment and travel expenses incurred and documented in accordance with the policies of the Company in effect from time to time.

8. Termination.

(a) If Employee voluntarily terminates his employment with the Company or if the Company discharges Employee for Cause (as defined below), then the Company's obligations

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to pay the Base Salary and incentive compensation under this Agreement will terminate immediately, except for the payment of the Base Salary through the Date of Termination. For purposes of this Agreement, "Cause" is defined to mean only an act or acts of dishonesty by Employee constituting a felony and resulting or intended to result directly or indirectly in substantial personal gain or enrichment at the expense of the Company. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors (excluding Employee if he is then a director) at a meeting of the Board called and held for the purpose (after reasonable notice to Employee and an opportunity for Employee, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Employee was guilty of conduct meeting the criteria set forth above and specifying the particulars thereof.

(b) If Employee's employment with the Company is terminated by the Company without Cause or as a result of Employee's death or Permanent Disability (as defined below), then (i) the Company will be obligated to pay Employee's then current Base Salary pursuant to Section 3 (A) through the end of the stated term of employment hereunder in the event of termination by the Company without Cause or (B) for six months after the Date of Termination in the event of death or Permanent Disability and (ii) within 90 days after the Date of

Termination, the Company will pay Employee pro rated incentive compensation pursuant to Section 5 through the date of termination. For purposes hereof, "Permanent Disability" means a disability that results or, in the judgment of a physician mutually agreeable to the Company and Employee, is likely to result in Employee being

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unable to fulfill his duties under this Agreement for 180 consecutive days.

(c) Any termination by the Company for Cause or Permanent Disability pursuant to Section 8(a) or 8(b), respectively, 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 Employee's employment under the provision so indicated. For purposes of this Agreement, no such purported termination shall be effective without such Notice of Termination.

(d) For purposes of this Agreement, "Date of Termination" shall mean (i) if the Agreement is terminated as a result of Employee's death, the date of Employee's death, (ii) if the Agreement is terminated by Employee, the date on which he delivers a Notice of Termination to the Company, (iii) if this Agreement is terminated by the Company for Permanent Disability, 30 days after a Notice of Termination is given (provided that Employee shall not have returned to the performance of Employee's duties on a full-time basis during such 30-day period), or (iv) if Employee's employment is terminated by the Company 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 the Company, Employee notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the earlier of the fifth 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

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for appeal therefrom having expired and no appeal having been perfected).

(e) Employee shall have no duty to mitigate the Company's obligations with respect to the payments set forth in this Section 8 by seeking other employment following his termination of employment, nor shall such obligations be subject to offset or reduction by reason of any compensation received by Employee from such other employment.

9. Restrictive Covenant. In consideration of the Company's agreement to employ Employee, until December 31, 2001, Employee hereby agrees that Employee will not, except in connection with the performance of his duties hereunder, directly or indirectly, either as an employee, partner, owner, director, adviser or consultant or in any other capacity:

(a) engage in the homebuilding business (a "Competing Business");

(b) recruit, hire or discuss employment with any person who is, or within the six month period preceding the date of such activity was, an employee of the Company (other than as a result of a general solicitation for employment);

(c) subject to the proviso below, solicit any customer or supplier of the Company for a Competing Business or otherwise attempt to induce any such customer or supplier to discontinue its relationship with the Company; or

(d) except solely as a limited partner or other form of passive investment with no management or operating responsibilities, engage in the land banking or lot development business; provided, however, that the foregoing shall not restrict (i) the ownership of less than 5% of a publicly-traded company or, (ii) in the event Employee's employment is terminated hereunder,

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engaging in the custom homebuilding business, including soliciting customers through a general solicitation and soliciting suppliers who serve the Company, but not to induce them to discontinue their relationship with the Company, or engaging in the production homebuilding business outside a 100 mile radius of any project of the Company or outside Northern California (which shall be deemed to mean the metropolitan area of San Jose and all of the State of California north of such area) or engaging in the land banking or lot development business.

Employee represents to the Company that he is willing and able to engage in businesses that are not Competing Businesses hereunder and that enforcement of the restrictions set forth in this Section 9 would not be unduly burdensome to Employee. The Company and Employee acknowledge and agree that the restrictions set forth in this Section 9 are reasonable as to time, area and scope of activity and do not impose a greater restraint than is necessary to protect the goodwill and other business interests of the Company, and Employee agrees that the Company is justified in believing the foregoing. If the provisions of this Section 9 are found by a court of competent jurisdiction to

contain limitations as to time, area or scope of activity that are not reasonable or not necessary to protect the goodwill or other business interests of the Company, then such court is hereby directed to reform such provisions to the minimum extent necessary to cause the limitations contained herein as to time, area and scope of activity to be reasonable and to impose a restraint that is not greater than necessary to protect the goodwill and other business interests of the Company. The provisions of this Section 9 will survive any termination of this Agreement, except that this Section 9 will not apply following termination of Employee by the Company without Cause.

10. Confidential Information. During the term of Employee's employment and for one

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year thereafter, without the Company's prior written consent, Employee will not use competitively or disclose to any third party (other than in accordance with the proper performance of his duties hereunder or as may be required by statute or court order) the proprietary information, trade secrets, business, marketing, advertising, strategic or business information, customer or prospect lists, work product, know-how or other confidential information of the Company ("Confidential Information"), all of which Employee acknowledges and agrees is the sole and exclusive property of the Company. Upon termination of his employment for any reason, Employee will immediately return to the Company all copies, in whatever form, of any Confidential Information that may be in his possession or control.

11. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable, and if no such modification will render it legal, valid and enforceable, then this Agreement will be construed as if not containing the provision held to be invalid, and the rights and obligations of the parties will be construed and enforced accordingly.

12. Injunctive Relief. Employee acknowledges and agrees that the Company would be irreparably harmed by any violation of Employee's obligations under Sections 9 and 10 hereof and that, in addition to all other rights or remedies available at law or in equity, the Company will be entitled to injunctive and other equitable relief to prevent or enjoin any such violation.

13. Entire Agreement. This Agreement embodies the complete agreement of the parties

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hereto with respect to the subject matter hereof and supersedes any prior written, or prior or contemporaneous oral, understandings or agreements between the parties that may have related in any way to the subject matter hereof. This Agreement may be amended only in writing executed by the Company and Employee.

14. Governing Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement, shall be governed by and construed in accordance with the internal laws, and not the law of conflicts, of the State of Arizona.

15. Notice. Any notice required or permitted under this Agreement must be in writing and will be deemed to have been given when delivered personally or by overnight courier service or three days after being sent by mail, postage prepaid, at the address indicated below or to such changed address as such person may subsequently give such notice of:

if to the Company: Homeplex Mortgage Investments Corporation
5333 North Seventh Street,
Suite 219
Phoenix, Arizona 85014
Attention: Corporate Secretary

if to Employee: Steven J. Hilton
5265 N. Wilkinson
Paradise Valley, Arizona 85253

16. Arbitration. All disputes, claims and other matters in controversy arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or non-contractual, shall be determined by arbitration and shall be settled by three arbitrators, one of

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whom shall be appointed by the Company, one by the Employee and the third of whom shall be appointed by the first two arbitrators. Persons eligible to be selected as arbitrators shall be limited to attorneys who have been in practice at least 15 years specializing in employment law matters and who have had both training and experience as arbitrators ("Experienced Arbitrators"). If either such person fails to appoint an arbitrator within ten (10) days of a request in writing by the other such person to do so or if the first two arbitrators cannot agree on the appointment of a third arbitrator within thirty days, then such arbitrator shall be appointed by the American Arbitration Association (which appointment shall not be limited to Experienced Arbitrators if not made within the applicable time period). Except as to the selection of arbitrators which shall be as set forth above, the arbitration shall be conducted promptly and

expeditiously at such place in Phoenix, Arizona agreed to between the Company and the Employee in accordance with the Commercial Rules of Arbitration of the American Arbitration Association then in effect so as to enable the arbitrators to resolve the disputes, claims and other matters in controversy within forty-five (45) days of the commencement of the arbitration proceedings. The arbitrators shall base their award on applicable law and judicial precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based and may award temporary or permanent equitable relief. Judgement on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' resolution of the dispute shall be final,

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binding and non-appealable. The nonprevailing party shall bear the expenses of the arbitrators and the arbitration, including reasonable attorneys' fees and costs.

IN WITNESS WHEREOF, the Company and Employee have executed and delivered this Agreement as of the date first above written.

HOMEPLEX MORTGAGE INVESTMENTS
CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

EMPLOYEE

/s/ Steven J. Hilton
.....
Steven J. Hilton

STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (the "Agreement") is dated as of December 31, 1996 (the "Effective Date") between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and William W. Cleverly ("Optionee").

WHEREAS, the Company desires to obtain the services of the Optionee, and the Optionee has agreed to provide services to the Company;

WHEREAS, the Company desires to compensate the Optionee for such services by granting the Optionee an option (the "Option") to purchase shares of the Company's common stock, \$.01 par value per share (the "Common Stock"), subject to the terms and conditions of this Agreement;

NOW, THEREFORE, the parties agree as follows:

1. Grant of Option. The Company hereby grants to the Optionee, on the terms and subject to the conditions, limitations and restrictions set forth in this Agreement, an Option to purchase 500,000 shares of Common Stock at an exercise price of \$1.75 per share of Common Stock.

2. Exercise Period, Vesting and Amount. The Option shall be exercisable ratably in equal annual increments over three years commencing on the first anniversary of the Effective Date; provided, however, that the Option shall become exercisable in full if

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there is a change of control of the Company required to be reported in response to Item 1 of Form 8-K under the Securities Exchange Act of 1934 as in effect on the date of this Agreement (or any similar or successor form or provisions) on or prior to the third anniversary of the Effective Date. The Option shall expire and become null and void after December 31, 2002.

3. Exercise. In order to exercise the Option, the Optionee must provide written notice (the "Exercise Notice") to the Company at its principal executive office stating the number of shares in respect of which the Option is being exercised. The Exercise Notice must be signed by the Optionee and must include his complete address and social security number. At the time of exercise, the Optionee must pay to the Company the applicable exercise price per share times the number of shares as to which the Option is being exercised, payable (a) by cash or cash equivalent or (b) at the Company's option, by the delivery of shares of Common Stock having a Fair Market Value (defined below) on the date immediately preceding the exercise date equal to the aggregate exercise price, which may include shares subject to the Option. If the Option is exercised in full, the Optionee will surrender this Agreement to the Company for cancellation. If the Option is exercised in part, the Optionee will surrender this Agreement to the Company so that the Company may make appropriate notation hereon or cancel this Agreement and issue a new agreement (containing the same terms and conditions set forth herein) representing the unexercised portion of the Option. For these purposes, "Fair Market Value" means (i) the average closing price on the

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New York Stock Exchange or any other exchange or market system on which the Common Stock is primarily traded for the last five trading days ending on the date immediately preceding the exercise date; or (ii) if there is no reported price information for the Common Stock, the fair market value as determined in good faith by the Company's Board of Directors.

4. Tax Withholding. Any provision of this Agreement to the contrary notwithstanding, the Company may take such steps as it deems necessary or desirable for the withholding of any taxes that it is required by law or regulation of any governmental authority, federal, state or local, domestic or foreign, to withhold in connection with any of the shares of Common Stock subject hereto, including requiring the Optionee to pay to the Company the amount of such withholding tax before the Company issues any shares pursuant to the exercise of the Option.

5. Dilution. If the number of shares of Common Stock outstanding is changed by reason of a stock dividend, stock split, reclassification or combination of shares, the number of shares of Common Stock then issuable upon exercise of the Option and the exercise price per share will be appropriately adjusted. In the event of any merger, consolidation, reorganization, or recapitalization of the Company pursuant to which holders of the Common Stock receive securities, other assets or cash (a "Reorganization Transaction"), then upon any subsequent exercise of the Option, the Optionee will be entitled

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to receive, for each share of Common Stock issuable upon exercise of the Option, the number and kind of securities, other assets or cash received in respect of one share of Common Stock as a result of such Reorganization Transaction.

6. Termination.

(a) If the Company discharges Optionee for Cause (as defined below), then the Option will terminate immediately. For purposes of

this Agreement, "Cause" is defined to mean only an act or acts of dishonesty by Optionee constituting a felony and resulting or intended to result directly or indirectly in substantial personal gain or enrichment at the expense of the Company. Notwithstanding the foregoing, Optionee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Optionee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors (excluding Optionee if he is then a director) at a meeting of the Board called and held for the purpose (after reasonable notice to Optionee and an opportunity for Optionee, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Optionee was guilty of conduct meeting the criteria set forth above and specifying the particulars thereof.

(b) If Optionee voluntarily terminates his employment with the Company

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or if Optionee's employment with the Company is terminated as a result of Optionee's death or Permanent Disability (as defined below), then the Option will be exercisable for six months following such termination in the event of voluntary termination and one year following such termination in the case of death or Permanent Disability, but only in any such case to the extent that the Option was exercisable on the date of termination. For purposes hereof, "Permanent Disability" means a disability that results or, in the judgment of a physician mutually agreeable to the Company and Optionee, is likely to result in Optionee being unable to fulfill his duties for 180 consecutive days.

(c) If Optionee's employment with the Company is terminated by the Company without Cause, the Option will be immediately exercisable for the aggregate number of Option Shares not previously exercised and issued pursuant to this Agreement until December 31, 2002;

(d) For purposes of Section 6(a) or 6(b) hereof, any termination by the Company for Cause or Permanent Disability shall be communicated by written Notice of Termination complying with Section 8(c) of Optionee's Employment Agreement with the Company dated the date hereof.

7. Transfer of Option. The Optionee shall not, directly or indirectly, sell, pledge or otherwise transfer ("Transfer") any unexercised portion of the Option or the rights

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and privileges pertaining thereto, other than pursuant to a qualified domestic relations order. Neither the Option nor the underlying shares of Common Stock is liable for or subject to, in whole or in part, the debts, contracts, liabilities or torts of the Optionee, nor will they be subject to garnishment, attachment, execution, levy or other legal or equitable process, other than pursuant to a qualified domestic relations order.

8. Certain Legal Requirements. The Company will register or qualify the Optionee's shares of Common Stock under the Securities Act of 1933 and applicable blue sky or state securities laws, and will cause such shares to be listed on any exchange or trading system upon which the Company's Common Stock is listed.

9. Arbitration. All disputes, claims and other matters in controversy arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or non-contractual, shall be determined by arbitration and shall be settled by three arbitrators, one of whom shall be appointed by the Company, one by the Employee and the third of whom shall be appointed by the first two arbitrators. Persons eligible to be selected as arbitrators shall be limited to attorneys who have been in practice at least 15 years specializing in employment law matters and who have had both training and experience as arbitrators ("Experienced Arbitrators"). If either such person fails to appoint an arbitrator within ten (10) days of a request in writing by the other such person to do so or if the first two arbitrators cannot agree on the appointment of a third arbitrator within thirty days, then such arbitrator shall be appointed by the American Arbitration Association (which

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appointment shall not be limited to Experienced Arbitrators if not made within the applicable time period). Except as to the selection of arbitrators which shall be as set forth above, the arbitration shall be conducted promptly and expeditiously at such place in Phoenix, Arizona agreed to between the Company and the Optionee in accordance with the Commercial Rules of Arbitration of the American Arbitration Association then in effect so as to enable the arbitrators to resolve the disputes, claims and other matters in controversy within forty-five (45) days of the commencement of the arbitration proceedings. The arbitrators shall base their award on applicable law and judicial precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based and may award temporary or permanent equitable relief. Judgment on the award rendered by the

arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' resolution of the dispute shall be final, binding and non-appealable. The nonprevailing party shall bear the expenses of the arbitrators and the arbitration, including reasonable attorneys' fees and costs.

10. Miscellaneous.

(a) The Option is intended to be a non-qualified stock option under applicable tax laws, and it is not to be characterized or treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986.

(b) Neither the Optionee nor any person claiming under or through the

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Optionee will have any of the rights or privileges of a shareholder of the Company in respect of any of the shares issuable upon exercise of the Option unless and until certificates representing such shares have been issued and delivered, provided that the Company shall ensure that certificates representing shares validly purchased hereunder shall be issued and delivered promptly to the Optionee or person validly claiming under or through Optionee.

(c) All notices and other communications hereunder must be in writing and will be deemed to have been duly given when delivered or mailed in accordance with the provisions of Section 14 of Optionee's Employment Agreement with the Company dated the date hereof.

(d) Subject to the limitations in this Agreement on the transferability by the Optionee of the Option and any shares of Common Stock, this Agreement will be binding on and inure to the benefit of the successors and assigns of the parties hereto.

(e) If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable, and if no such modification will render it legal, valid and enforceable, then this Agreement will be construed as if not containing the provision held to be invalid, and

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the rights and obligations of the parties will be construed and enforced accordingly.

(f) The parties acknowledge and agree that any violation of the terms of this Agreement would cause irreparable harm to the other party and that, in addition to all other rights or remedies available at law or in equity, such party will be entitled to injunctive and other equitable relief to prevent or enjoin any such violation.

(g) THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAW, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF ARIZONA.

(h) This Agreement may be executed in any number of counterparts, and all such counterparts will be deemed an original, will be construed together and will constitute one and the same instrument.

(i) This Agreement embodies the complete agreement and understanding among the parties with respect to the subject matter hereof and supersedes and preempts any prior written, or prior or contemporaneous oral, understandings, agreements or representations by or among any of the parties that may have related to the subject matter hereof in any way.

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

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HOMEPLEX
MORTGAGE INVESTMENTS
CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

OPTIONEE

/s/ William W. Cleverly
.....
William W. Cleverly

STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (the "Agreement") is dated as of December 31, 1996 (the "Effective Date") between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and Steven J. Hilton ("Optionee").

WHEREAS, the Company desires to obtain the services of the Optionee, and the Optionee has agreed to provide services to the Company;

WHEREAS, the Company desires to compensate the Optionee for such services by granting the Optionee an option (the "Option") to purchase shares of the Company's common stock, \$.01 par value per share (the "Common Stock", subject to the terms and conditions of this Agreement;

NOW, THEREFORE, the parties agree as follows:

1. Grant of Option. The Company hereby grants to the Optionee, on the terms and subject to the conditions, limitations and restrictions set forth in this Agreement, an Option to purchase 500,000 shares of Common Stock at an exercise price of \$1.75 per share of Common Stock.

2. Exercise Period, Vesting and Amount. The Option shall be exercisable ratably in equal annual increments over three years commencing on the first anniversary of the Effective Date; provided, however, that the Option shall become exercisable in full if there is a change of control of the Company required to be reported in response to Item 1 of Form 8-K under the Securities Exchange Act of 1934 as in effect on the date of this

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Agreement (or any similar or successor form or provisions) on or prior to the third anniversary of the Effective Date. The Option shall expire and become null and void after December 31, 2002.

3. Exercise. In order to exercise the Option, the Optionee must provide written notice (the "Exercise Notice" to the Company at its principal executive office stating the number of shares in respect of which the Option is being exercised. The Exercise Notice must be signed by the Optionee and must include his complete address and social security number. At the time of exercise, the Optionee must pay to the Company the applicable exercise price per share times the number of shares as to which the Option is being exercised, payable (a) by cash or cash equivalent or (b) at the Company's option, by the delivery of shares of Common Stock having a Fair Market Value (defined below) on the date immediately preceding the exercise date equal to the aggregate exercise price, which may include shares subject to the Option. If the Option is exercised in full, the Optionee will surrender this Agreement to the Company for cancellation. If the Option is exercised in part, the Optionee will surrender this Agreement to the Company so that the Company may make appropriate notation hereon or cancel this Agreement and issue a new agreement (containing the same terms and conditions set forth herein) representing the unexercised portion of the Option. For these purposes, "Fair Market Value" means (i) the average closing price on the New York Stock Exchange or any other exchange or market system on which the Common Stock is primarily traded for the last five trading days ending on the date immediately

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preceding the exercise date; or (ii) if there is no reported price information for the Common Stock, the fair market value as determined in good faith by the Company's Board of Directors.

4. Tax Withholding. Any provision of this Agreement to the contrary notwithstanding, the Company may take such steps as it deems necessary or desirable for the withholding of any taxes that it is required by law or regulation of any governmental authority, federal, state or local, domestic or foreign, to withhold in connection with any of the shares of Common Stock subject hereto, including requiring the Optionee to pay to the Company the amount of such withholding tax before the Company issues any shares pursuant to the exercise of the Option.

5. Dilution. If the number of shares of Common Stock outstanding is changed by reason of a stock dividend, stock split, reclassification or combination of shares, the number of shares of Common Stock then issuable upon exercise of the Option and the exercise price per share will be appropriately adjusted. In the event of any merger, consolidation, reorganization, or recapitalization of the Company pursuant to which holders of the Common Stock receive securities, other assets or cash (a "Reorganization Transaction"), then upon any subsequent exercise of the Option, the Optionee will be entitled to receive, for each share of Common Stock issuable upon exercise of the Option, the number and kind of securities, other assets or cash received in respect of one share of Common Stock as a result of such Reorganization Transaction.

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6. Termination.

(a) If the Company discharges Optionee for Cause (as defined below), then the Option will terminate immediately. For purposes of this Agreement, "Cause" is defined to mean only an act or acts of

dishonesty by Optionee constituting a felony and resulting or intended to result directly or indirectly in substantial personal gain or enrichment at the expense of the Company. Notwithstanding the foregoing, Optionee shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Optionee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors (excluding Optionee if he is then a director) at a meeting of the Board called and held for the purpose (after reasonable notice to Optionee and an opportunity for Optionee, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Optionee was guilty of conduct meeting the criteria set forth above and specifying the particulars thereof.

(b) If Optionee voluntarily terminates his employment with the Company or if Optionee's employment with the Company is terminated as a result of Optionee's death or Permanent Disability (as defined below), then the Option will be exercisable for six months following such termination in the event of voluntary termination and one year following such termination in the case of death or

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Permanent Disability, but only in any such case to the extent that the Option was exercisable on the date of termination. For purposes hereof, "Permanent Disability" means a disability that results or, in the judgment of a physician mutually agreeable to the Company and Optionee, is likely to result in Optionee being unable to fulfill his duties for 180 consecutive days.

(c) If Optionee's employment with the Company is terminated by the Company without Cause, the Option will be immediately exercisable for the aggregate number of Option Shares not previously exercised and issued pursuant to this Agreement until December 31, 2002;

(d) For purposes of Section 6(a) or 6(b) hereof, any termination by the Company for Cause or Permanent Disability shall be communicated by written Notice of Termination complying with Section 8(c) of Optionee's Employment Agreement with the Company dated the date hereof.

7. Transfer of Option. The Optionee shall not, directly or indirectly, sell, pledge or otherwise transfer ("Transfer") any unexercised portion of the Option or the rights and privileges pertaining thereto, other than pursuant to a qualified domestic relations order. Neither the Option nor the underlying shares of Common Stock is liable for or subject to, in whole or in part, the debts, contracts, liabilities or torts of the Optionee, nor will they be subject to garnishment, attachment, execution, levy or other legal or equitable process, other than pursuant to a qualified domestic relations order.

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8. Certain Legal Requirements. The Company will register or qualify the Optionee's shares of Common Stock under the Securities Act of 1933 and applicable blue sky or state securities laws, and will cause such shares to be listed on any exchange or trading system upon which the Company's Common Stock is listed.

9. Arbitration. All disputes, claims and other matters in controversy arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or non-contractual, shall be determined by arbitration and shall be settled by three arbitrators, one of whom shall be appointed by the Company, one by the Employee and the third of whom shall be appointed by the first two arbitrators. Persons eligible to be selected as arbitrators shall be limited to attorneys who have been in practice at least 15 years specializing in employment law matters and who have had both training and experience as arbitrators ("Experienced Arbitrators"). If either such person fails to appoint an arbitrator within ten (10) days of a request in writing by the other such person to do so or if the first two arbitrators cannot agree on the appointment of a third arbitrator within thirty days, then such arbitrator shall be appointed by the American Arbitration Association (which appointment shall not be limited to Experienced Arbitrators if not made within the applicable time period). Except as to the selection of arbitrators which shall be as set forth above, the arbitration shall be conducted promptly and expeditiously at such place in Phoenix, Arizona agreed to between the Company and the Optionee in accordance with the Commercial Rules of Arbitration of the American Arbitration Association then in effect so as to enable the

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arbitrators to resolve the disputes, claims and other matters in controversy within forty-five (45) days of the commencement of the arbitration proceedings. The arbitrators shall base their award on applicable law and judicial precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based and may award temporary or permanent equitable relief. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' resolution of the dispute shall be final, binding and non-appealable. The nonprevailing party shall bear the expenses of the arbitrators and the arbitration, including reasonable attorneys' fees and costs.

10. Miscellaneous.

(a) The Option is intended to be a non-qualified stock option under applicable tax laws, and it is not to be characterized or treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986.

(b) Neither the Optionee nor any person claiming under or through the Optionee will have any of the rights or privileges of a shareholder of the Company in respect of any of the shares issuable upon exercise of the Option unless and until certificates representing such shares have been issued and delivered, provided that the Company shall ensure that certificates representing shares validly purchased hereunder shall be issued and delivered promptly to the Optionee or person validly claiming under or through Optionee.

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(c) All notices and other communications hereunder must be in writing and will be deemed to have been duly given when delivered or mailed in accordance with the provisions of Section 14 of Optionee's Employment Agreement with the Company dated the date hereof.

(d) Subject to the limitations in this Agreement on the transferability by the Optionee of the Option and any shares of Common Stock, this Agreement will be binding on and inure to the benefit of the successors and assigns of the parties hereto.

(e) If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable, and if no such modification will render it legal, valid and enforceable, then this Agreement will be construed as if not containing the provision held to be invalid, and the rights and obligations of the parties will be construed and enforced accordingly.

(f) The parties acknowledge and agree that any violation of the terms of this Agreement would cause irreparable harm to the other party and that, in addition to all other rights or remedies available at law or in equity, such party will be entitled to injunctive and other equitable relief to prevent or enjoin any such violation.

(g) THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAW, AND NOT

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THE LAW OF CONFLICTS, OF THE STATE OF ARIZONA.

(h) This Agreement may be executed in any number of counterparts, and all such counterparts will be deemed an original, will be construed together and will constitute one and the same instrument.

(i) This Agreement embodies the complete agreement and understanding among the parties with respect to the subject matter hereof and supersedes and preempts any prior written, or prior or contemporaneous oral, understandings, agreements or representations by or among any of the parties that may have related to the subject matter hereof in any way.

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

HOMEPLEX
MORTGAGE INVESTMENTS
CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

OPTIONEE

/s/ Steven J. Hilton
.....
Steven J. Hilton

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement"), dated December 31, 1996, is made by and between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and William W. Cleverly (the "Holder").

The Company and the Holder agree as follows:

1. Shares. As used herein, the term "Shares" shall mean the shares of common stock, \$.01 par value, of the Company, acquired by the Holder pursuant to that certain Agreement and Plan of Reorganization (the "Merger Agreement") among the Company, Monterey Homes Construction II, Inc.; Monterey Homes Arizona II, Inc. and the Monterey Shareholders (as defined therein) dated September 13, 1996 (including the Contingent Stock (as defined in the Merger Agreement) and underlying that certain Stock Option Agreement by and between the Company and the Holder dated December 31, 1996 (the "Option Shares") and any securities issued to Holder as a dividend or distribution in respect of or in exchange for such shares, whether by reclassification, stock split, reverse stock split or otherwise) until their sale under this Agreement or in accordance with Rule 144 (or any similar provision then in force) under the Securities Act of 1933, as amended (the "Securities Act").

2. Demand Registration. (a) Subject to the provisions of Section 2(b)

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hereof, the Holder may at any time after the first anniversary of the date of this Agreement make up to two written requests to the Company for registration under Form S-3 (or such other appropriate or successor form if Form S-3 is not available) and in accordance with the provisions of Rule 415 promulgated under the Securities Act of all or a portion of his Shares. The Company shall prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-3 (or such other appropriate or successor form if Form S-3 is not available) under the Securities Act covering such Shares, shall use its best efforts to cause such registration statement to become effective within ninety (90) days of the Holder's request and shall file such post-effective amendments to such registration statement in order for it to remain effective without lapse until the sale of all the Shares and shall qualify such offering under applicable blue sky or state securities laws.

(b) Notwithstanding delivery of any written request referred to in Section 2(a), the Company will have the prior right at any time to conduct public offerings of its common stock for its corporate purposes and may preempt any pending demand registration, in which case Section 3 will apply to the offering. Under these circumstances, the Company will not be obligated to effect the requested demand registration under this Section 2 and such previously requested registration will not count as a demand registration under Section 2(a). In addition, if, prior to the time a written request is delivered under Section 2(a), the Company has given written notice pursuant to Section 3(a) of its intention to file a registration statement, the Company shall not be obligated to cause the requested

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demand registration to become effective until 120 days after the effective date of such registration statement or until the Company ceases to diligently pursue the preparation, filing and effectiveness of such registration statement.

(c) The Company shall file a registration statement on Form S-8 with respect to the Option Shares promptly after the date hereof and shall use its best efforts to cause such registration statement to remain effective until the related stock options have been exercised or expired.

(d) The Company shall pay the expenses described in Section 6 for the registration pursuant to this Section 2.

3. Incidental Registration Rights. (a) If at any time the Company shall determine to proceed with the preparation and filling of a registration statement under the Securities Act in connection with the proposed offer and sale of any of its securities by it or any of its security holders (other than a registration statement on Form S-4, S-8 or other limited purpose form), the Company will give written notice of its determination to the Holder. Upon the written request from the Holder, within ten (10) days after receipt of any such notice from the Company, the Company will, subject to the provisions of Section 3(b), include all Shares requested by the Holder in such registration statement (and any related qualification under blue sky or state securities laws); provided, however, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any registration under

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this Section 3. If any registration pursuant to this Section 3 shall be underwritten in whole or in part, the Company shall require that the Shares requested for inclusion pursuant to this Section 3 be included in the underwriting on the same terms and conditions, including lock-up provisions, as the securities otherwise being sold through the underwriters.

(b) Notwithstanding the foregoing, if the managing underwriter determines and advises that the inclusion of the Shares proposed to be included in the underwritten public offering, together with any other issued and outstanding securities proposed to be included therein by holders of securities other than the Holder who have registration rights which are pari passu to the Holder, would interfere with the successful marketing of such securities, then the number of such Shares that the managing underwriter believes may be sold in such underwritten public offering shall be allocated for inclusion in the registration statement in the following order of priority: (i) first, the securities being offered by the Company, and (ii) secondly, the number of Shares then owned by the Holder and other holders entitled to participate therein who have registration rights which are pari passu to the Holder on a pro rata basis or such other basis as they shall have agreed.

(c) The Company shall pay the expenses described in Section 6 for registration statements filed pursuant to this Section 3.

4. Registration Procedures. If and whenever the Company is required by the provisions of Section 2 or 3 to effect the registration of Shares under the Securities

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Act, the Company will:

(a) prepare and file with the SEC a registration statement with respect to such securities, and use its best efforts to cause such registration statement to become and remain effective for such period as may be reasonably necessary to effect the sale of such securities (the "Effective Period").

(b) prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for the Effective Period as may be reasonably necessary to effect the sale of such securities.

(c) furnish to the Holder and to the underwriters for the securities being registered, such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as the Holder and such underwriters may reasonably request in order to facilitate the public offering of such securities.

(d) use its best efforts to register or qualify the Shares covered by such registration statement under such state securities or blue sky laws of such jurisdictions as the Holder may reasonably request in writing within ten (10) days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified or subject itself to

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taxation in a jurisdiction where it had not previously been subject to taxation, or take any other action that would subject the Company to service of process in a lawsuit other than one arising out of the registration of the Shares.

(e) notify the Holder, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed.

(f) notify the Holder promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or for additional information.

(g) prepare and promptly file with the SEC and promptly notify the Holder of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at any time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading; and

(h) advise the Holder, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the

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effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

5. Underwriting. The Holder agrees that any demand registration involving the issuance of Common Stock by the Company will, at the Company's option, be effected pursuant to an underwritten public offering. The Holder will select the book-running managing underwriter and any additional

investment bankers and managers to be used in connection with the demand registration, provided that such underwriter and additional investment bankers and managers are reasonably acceptable to the Company and that the underwriting discounts, fees, discounts and any other compensation proposed to be charged by such persons is competitive with that obtainable from other underwriters, bankers and managers of comparable quality and reputation. The Holder may not participate in an incidental registration hereunder unless such Holder (a) agrees to sell the Shares on the basis provided in the underwriting arrangements, if any, and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, if any, and these registration rights.

6. Expenses. (a) With respect to any registration requested pursuant to Section 2 hereof, and with respect to an inclusion of Shares in a registration statement

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pursuant to Section 3 hereof, all fees, costs and expenses of such registration, inclusion and public offering (as further specified in paragraph (b) below) shall be borne by the Company; provided, however, that the Holder shall bear the underwriting discounts and commissions and transfer taxes in respect of the sale of his Shares.

(b) The fees, costs and expenses of registration to be borne by the Company as provided in Section 6(a) above shall include, without limitation, all registration, filing, and NASD fees, printing expenses, fees and disbursements of legal counsel and accountants for the Company and all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered and qualified.

7. Indemnification. (a) The Company will indemnify and hold harmless the Holder and any underwriter (as defined in the Securities Act) for the Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act, from and against and will reimburse the Holder and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which the Holder or any such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to

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state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expenses arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing by the Holder, such underwriter or such controlling person specifically for use in the preparation thereof. The Company will not be subject to any liability for any settlement made without its consent, which consent shall not be unreasonably withheld.

(b) The Holder will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter thereof from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter thereof with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter thereof may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, cost or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or

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necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in conformity with information furnished in writing by or on behalf of the Holder specifically for use in the preparation thereof. The Holder will not be subject to any liability for any settlement made without its consent, which consent shall not be unreasonably withheld.

(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 6 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than

hereunder, except to the extent that such omission materially and adversely affects the indemnifying party's ability to defend against or compromise such claim. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that

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if the defendants in any action include both the indemnified party and the indemnifying party and there are legal defenses available to the indemnified party and/or other indemnified parties which are different from or in addition to those available to the indemnifying party, or if there is a conflict of interest which would prevent counsel for the indemnifying party from also representing the indemnified party, the indemnified party or parties shall have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties. After notice from the indemnifying party to an indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the provisions of the preceding sentence, (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

(d) If for any reason the foregoing indemnification is unavailable, or is insufficient to hold harmless an indemnified party, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses,

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claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other in connection with the statement or omission which resulted in the losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

8. Miscellaneous.

(a) Notices. Any notice or other communications required or which may be given hereunder shall be in writing and shall be delivered personally, or telegraphed, telexed or telecopied, or sent by certified, registered or express mail postage prepaid, and shall be given when so delivered personally, or telegraphed, telexed or telecopied, or if mailed, two days after mailing, as follows (or to such other address as any party may from time to time specify in writing pursuant to the notice provisions hereof):

If to the Company:

Homeplex Mortgage Investments Corporation
5333 North Seventh Street, Suite 219
Phoenix, Arizona 85014
Fax: (602) 230-1690
Attention: Corporate Secretary

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If to the Holder:

William W. Cleverly
5627 N. Casa Blanca Road
Paradise Valley, Arizona 85253

(b) Entire Agreement. This Agreement contains the entire agreement between the Company and the Holder, in respect of the subject matter hereof, and supersedes all prior agreements, written or oral, with respect thereto.

(c) Amendment. This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and any term or condition hereof may be waived, only by a written instrument executed by the Company and the Holder, in the case of a waiver, by the party waiving compliance. No delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any party may otherwise have at law or in equity.

(d) Governing Law. This Agreement is made in, and shall be governed by and construed in accordance with, the laws of the State of Arizona, without

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giving effect to the provisions thereof pertaining to conflicts and choices of law.

(e) Successors and Assigns. This agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties; notwithstanding the foregoing, neither party shall assign its rights, duties or obligations under this Agreement to any other person, without the other party's express written consent, except that the Holder may assign the benefits of this Agreement to any member of the Holder's "immediate family" as such term is defined in Rule 16a-1(e) or any trust, partnership or other entity created for the benefit of such persons or to any other transferee of more than 150,000 shares prior to giving effect to the contemplated reverse stock split of the Company as set forth in the Merger Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

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

HOMEPLEX MORTGAGE
INVESTMENTS CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

HOLDER

/s/ William W. Cleverly
.....
William W. Cleverly

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement"), dated December 31, 1996, is made by and between Homeplex Mortgage Investments Corporation, a Maryland corporation (the "Company"), and Steven J. Hilton (the "Holder").

The Company and the Holder agree as follows:

1. Shares. As used herein, the term "Shares" shall mean the shares of common stock, \$.01 par value, of the Company, acquired by the Holder pursuant to that certain Agreement and Plan of Reorganization (the "Merger Agreement") among the Company, Monterey Homes Construction II, Inc.; Monterey Homes Arizona II, Inc. and the Monterey Shareholders (as defined therein) dated September 13, 1996 (including the Contingent Stock (as defined in the Merger Agreement) and underlying that certain Stock Option Agreement by and between the Company and the Holder dated December 31, 1996 (the "Option Shares") and any securities issued to Holder as a dividend or distribution in respect of or in exchange for such shares, whether by reclassification, stock split, reverse stock split or otherwise) until their sale under this Agreement or in accordance with Rule 144 (or any similar provision then in force) under the Securities Act of 1933, as amended (the "Securities Act").

2. Demand Registration. (a) Subject to the provisions of Section 2(b) hereof, the Holder may at any time after the first anniversary of the date of this Agreement

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make up to two written requests to the Company for registration under Form S-3 (or such other appropriate or successor form if Form S-3 is not available) and in accordance with the provisions of Rule 415 promulgated under the Securities Act of all or a portion of his Shares. The Company shall prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-3 (or such other appropriate or successor form if Form S-3 is not available) under the Securities Act covering such Shares, shall use its best efforts to cause such registration statement to become effective within ninety (90) days of the Holder's request and shall file such post-effective amendments to such registration statement in order for it to remain effective without lapse until the sale of all the Shares and shall qualify such offering under applicable blue sky or state securities laws.

(b) Notwithstanding delivery of any written request referred to in Section 2(a), the Company will have the prior right at any time to conduct public offerings of its common stock for its corporate purposes and may preempt any pending demand registration, in which case Section 3 will apply to the offering. Under these circumstances, the Company will not be obligated to effect the requested demand registration under this Section 2 and such previously requested registration will not count as a demand registration under Section 2(a). In addition, if, prior to the time a written request is delivered under Section 2(a), the Company has given written notice pursuant to Section 3(a) of its intention to file a registration statement, the Company shall not be obligated to cause the requested demand registration to become effective until 120 days after the effective date of such

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registration statement or until the Company ceases to diligently pursue the preparation, filing and effectiveness of such registration statement.

(c) The Company shall file a registration statement on Form S-8 with respect to the Option Shares promptly after the date hereof and shall use its best efforts to cause such registration statement to remain effective until the related stock options have been exercised or expired.

(d) The Company shall pay the expenses described in Section 6 for the registration pursuant to this Section 2.

3. Incidental Registration Rights. (a) If at any time the Company shall determine to proceed with the preparation and filling of a registration statement under the Securities Act in connection with the proposed offer and sale of any of its securities by it or any of its security holders (other than a registration statement on Form S-4, S-8 or other limited purpose form), the Company will give written notice of its determination to the Holder. Upon the written request from the Holder, within ten (10) days after receipt of any such notice from the Company, the Company will, subject to the provisions of Section 3(b), include all Shares requested by the Holder in such registration statement (and any related qualification under blue sky or state securities laws); provided, however, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any registration under this Section 3. If any registration pursuant to this Section 3 shall be underwritten in whole or in part, the Company shall require that the Shares requested for inclusion pursuant to this

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Section 3 be included in the underwriting on the same terms and conditions, including lock-up provisions, as the securities otherwise being sold through the underwriters.

(b) Notwithstanding the foregoing, if the managing underwriter determines and advises that the inclusion of the Shares proposed to be included in the underwritten public offering, together with any other issued and outstanding securities proposed to be included therein by holders of securities other than the Holder who have registration rights which are pari passu to the Holder, would interfere with the successful marketing of such securities, then the number of such Shares that the managing underwriter believes may be sold in such underwritten public offering shall be allocated for inclusion in the registration statement in the following order of priority: (i) first, the securities being offered by the Company, and (ii) secondly, the number of Shares then owned by the Holder and other holders entitled to participate therein who have registration rights which are pari passu to the Holder on a pro rata basis or such other basis as they shall have agreed.

(c) The Company shall pay the expenses described in Section 6 for registration statements filed pursuant to this Section 3.

4. Registration Procedures. If and whenever the Company is required by the provisions of Section 2 or 3 to effect the registration of Shares under the Securities Act, the Company will:

(a) prepare and file with the SEC a registration statement with respect to such securities, and use its best efforts to cause such registration statement to

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become and remain effective for such period as may be reasonably necessary to effect the sale of such securities (the "Effective Period").

(b) prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for the Effective Period as may be reasonably necessary to effect the sale of such securities.

(c) furnish to the Holder and to the underwriters for the securities being registered, such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as the Holder and such underwriters may reasonably request in order to facilitate the public offering of such securities.

(d) use its best efforts to register or qualify the Shares covered by such registration statement under such state securities or blue sky laws of such jurisdictions as the Holder may reasonably request in writing within ten (10) days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified or subject itself to taxation in a jurisdiction where it had not previously been subject to taxation, or take any other action that would subject the Company to service of process in a lawsuit other than one arising out of the registration of the Shares.

(e) notify the Holder, promptly after it shall receive notice thereof,

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of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed.

(f) notify the Holder promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or for additional information.

(g) prepare and promptly file with the SEC and promptly notify the Holder of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at any time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading; and

(h) advise the Holder, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

5. Underwriting. The Holder agrees that any demand registration involving the issuance of Common Stock by the Company will, at the Company's option,

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be effected pursuant to an underwritten public offering. The Holder will select the book-running managing underwriter and any additional investment bankers and managers to be used in connection with the demand registration, provided that such underwriter and additional investment bankers and managers are reasonably acceptable to the Company and that the underwriting discounts, fees, discounts and any other compensation proposed to be charged by such persons is competitive with that obtainable from other underwriters, bankers and managers of comparable quality and reputation. The Holder may not participate in an incidental registration hereunder unless such Holder (a) agrees to sell the Shares on the basis provided in the underwriting arrangements, if any, and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, if any, and these registration rights.

6. Expenses. (a) With respect to any registration requested pursuant to Section 2 hereof, and with respect to an inclusion of Shares in a registration statement pursuant to Section 3 hereof, all fees, costs and expenses of such registration, inclusion and public offering (as further specified in paragraph (b) below) shall be borne by the Company; provided, however, that the Holder shall bear the underwriting discounts and commissions and transfer taxes in respect of the sale of his Shares.

(b) The fees, costs and expenses of registration to be borne by the Company as provided in Section 6(a) above shall include, without limitation, all registration,

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filing, and NASD fees, printing expenses, fees and disbursements of legal counsel and accountants for the Company and all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered and qualified.

7. Indemnification. (a) The Company will indemnify and hold harmless the Holder and any underwriter (as defined in the Securities Act) for the Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act, from and against and will reimburse the Holder and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which the Holder or any such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expenses arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished in writing by the Holder, such underwriter or such controlling person

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specifically for use in the preparation thereof. The Company will not be subject to any liability for any settlement made without its consent, which consent shall not be unreasonably withheld.

(b) The Holder will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter thereof from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter thereof with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter thereof may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, cost or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in conformity with information furnished in writing by or on behalf of the Holder specifically for use in the preparation thereof. The Holder will not be subject to any liability for any settlement made without its consent, which consent shall not be unreasonably withheld.

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(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 6 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than hereunder, except to the extent that such omission materially and adversely

affects the indemnifying party's ability to defend against or compromise such claim. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any action include both the indemnified party and the indemnifying party and there are legal defenses available to the indemnified party and/or other indemnified parties which are different from or in addition to those available to the indemnifying party, or if there is a conflict of interest which would prevent counsel for the indemnifying party from also representing the indemnified party, the indemnified party or parties shall have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties. After notice from the indemnifying party to an indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified

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party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the provisions of the preceding sentence, (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

(d) If for any reason the foregoing indemnification is unavailable, or is insufficient to hold harmless an indemnified party, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other in connection with the statement or omission which resulted in the losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

8. Miscellaneous.

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(a) Notices. Any notice or other communications required or which may be given hereunder shall be in writing and shall be delivered personally, or telegraphed, telexed or telecopied, or sent by certified, registered or express mail postage prepaid, and shall be given when so delivered personally, or telegraphed, telexed or telecopied, or if mailed, two days after mailing, as follows (or to such other address as any party may from time to time specify in writing pursuant to the notice provisions hereof):

If to the Company:

Homeplex Mortgage Investments Corporation
5333 North Seventh Street, Suite 219
Phoenix, Arizona 85014
Fax: (602) 230-1690
Attention: Corporate Secretary

If to the Holder:

Steven J. Hilton
5265 N. Wilkinson
Paradise Valley, Arizona 85253

(b) Entire Agreement. This Agreement contains the entire agreement between the Company and the Holder, in respect of the subject matter hereof, and supersedes all prior agreements, written or oral, with respect thereto.

(c) Amendment. This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and any term or condition hereof may be

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waived, only by a written instrument executed by the Company and the Holder, in the case of a waiver, by the party waiving compliance. No delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any party may otherwise have at law or in equity.

(d) Governing Law. This Agreement is made in, and shall be governed by and construed in accordance with, the laws of the State of Arizona, without giving effect to the provisions thereof pertaining to conflicts and choices of law.

(e) Successors and Assigns. This agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties; notwithstanding the foregoing, neither party shall assign its rights, duties or obligations under this Agreement to any other person, without the other party's express written consent, except that the Holder may assign the benefits of this Agreement to any member of the Holder's "immediate family" as such term is defined in Rule 16a-1(e) or any trust, partnership or other entity created for the benefit of such persons or to any other transferee of more than 150,000 shares prior to giving effect to the contemplated reverse stock split of the Company as set forth in the Merger Agreement.

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(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

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

HOMEPLEX MORTGAGE
INVESTMENTS CORPORATION

By: /s/ Jay R. Hoffman
.....
Name: Jay R. Hoffman
Title: President

HOLDER

/s/ Steven J. Hilton
.....
Steven J. Hilton

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ESCROW AND CONTINGENT STOCK AGREEMENT

THIS ESCROW AND CONTINGENT STOCK AGREEMENT (the "Agreement") is made as of December 31, 1996, by and among Homeplex Mortgage Investments Corporation, a Maryland corporation ("HPX") and William W. Cleverly and Steven J. Hilton (the "Monterey Shareholders").

RECITALS

WHEREAS, HPX and the Monterey Shareholders are parties to that certain Agreement and Plan of Reorganization dated September 13, 1996 (the "Merger Agreement");

WHEREAS, pursuant to the Merger Agreement, HPX has agreed to assume the obligations of Monterey Homes Construction II, Inc. and Monterey Homes Arizona II, Inc. under that certain Warrant Agreement dated October 17, 1994 (the "Warrant Agreement");

WHEREAS, this Agreement is being entered into pursuant to the Merger Agreement and establishes the terms and conditions of the deposit and disbursement of 643,500 shares of HPX Common Stock (the "Warrant Stock") issued in the names of the Monterey Shareholders upon the exercise or expiration of the Warrants (as defined in Section 1.3(e) of the Merger Agreement); and

WHEREAS, this Agreement is being entered into pursuant to the Merger Agreement and establishes the terms and conditions of the issuance of an additional 668,160 shares of HPX Common Stock (the "Contingent Stock") to the Monterey Shareholders and an additional 131,840 of HPX Common Stock (the "Contingent Warrant Stock") reserved for issuance upon the exercise or expiration of the Warrants (as defined in Section 1.3(e) of the Merger Agreement);

NOW THEREFORE, in consideration of the mutual covenants, agreements, representations and warranties contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby covenant and agree as follows:

1. Capitalized Terms. Unless otherwise defined, capitalized terms used in this Agreement shall have the same meaning ascribed to such terms in the Merger Agreement.

2. Appointment. The Monterey Shareholders hereby appoint HPX as the escrow agent

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with respect to the Warrant Stock under this Agreement, and HPX hereby agrees to accept such appointment.

3. Resignation and Substitution. HPX may resign as escrow agent at any time by giving notice of such resignation to the Monterey Shareholders specifying a date when such resignation shall take effect; provided, however, that HPX shall continue to serve until its successor accepts the Warrant Stock and receives the Warrant Stock in accordance with the following provisions: Upon notice of termination, a successor escrow agent shall be appointed by the Monterey Shareholders.

4. Deposit of Warrant Stock. The Monterey Shareholders hereby deliver the Warrant Stock to HPX to be held in escrow for the benefit of the Monterey Shareholders and Monterey Warranholders, and such escrow shall be governed by the terms set forth herein. HPX hereby acknowledges receipt of the Warrant Stock which shall be reasonably acceptable to HPX.

5. Exercise or Expiration of Warrants.

a. Upon the exercise, in whole or in part, of a Warrant by a Warranholder in accordance with the terms of the Warrant Agreement, HPX shall (i) deliver to such Warranholder a number of shares of Warrant Stock allocable to the Warranholder on a pro rata basis to the Warrant exercised; (ii) issue and deliver a number of shares of Contingent Warrant Stock allocable to the Warranholder on a pro rata basis to the Warrant exercised; and (iii) pay to the Monterey Shareholders an amount in cash equal to the aggregate price paid by the Warranholder to exercise the Warrant.

b. If any Warrants are not exercised and thus expire on October 15, 2001, HPX shall (i) deliver to each of the Monterey Shareholders one-half of any shares of Warrant Stock then held in escrow by HPX and (ii) issue and deliver to each of the Monterey Shareholders one-half of any shares of Contingent Warrant Stock that have not been issued hereunder.

c. Shares of Contingent Warrant Stock issued to Warranholders or the Monterey Shareholders pursuant to this Section 5 shall be issued

and delivered without regard to the stock price targets and other restrictions set forth in Section 6 below.

6. Issuance of Contingent Stock.

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a. Subject to subsection b, the Contingent Stock shall be issued pro rata to each Monterey Shareholder as follows:

(i) if the closing price of the HPX common stock on the New York Stock Exchange (the "HPX Stock Price") averages \$1.75 for twenty consecutive trading days at any time during the five-year period following the Effective Date, then 134,828 shares of Contingent Stock shall be issued pro rata to the Monterey Shareholders as soon as practicable but only after the first anniversary of the Effective Date;

(ii) if the HPX Stock Price averages \$2.50 for twenty consecutive trading days at any time during the five-year period following the Effective Date, then an additional 265,666 shares of Contingent Stock shall be issued pro rata to the Monterey Shareholders as soon as practicable but only after the second anniversary of the Effective Date; and

(iii) if the HPX Stock Price averages \$3.50 for twenty consecutive trading days at any time during the five-year period following the Effective Date, then an additional 266,666 shares of Contingent Stock shall be issued pro rata to the Monterey Shareholders as soon as practicable but only after the third anniversary of the Effective Date.

b. Notwithstanding the foregoing, the pro rata portion of the shares of Contingent Stock shall be issued to a Monterey Shareholder only if such Monterey Shareholder (i) is employed by HPX at the date shares of Contingent Stock are to be issued under Section 6(a) above or (ii) has been terminated by HPX without Cause (as defined in the Employment Agreement of even date herewith by and between HPX and the Monterey Shareholder).

7. Rights of Monterey Shareholders. The Monterey Shareholders shall retain all rights of ownership to the Warrant Stock held in escrow by HPX, including without limitation the right to vote the Warrant Stock. The Monterey Shareholders shall have no rights with respect to the Contingent Stock or Contingent Warrant Stock unless and until such Contingent Stock and Contingent Warrant Stock is issued to the Monterey Shareholders.

8. Taking of Necessary Action. Each of the parties hereto agrees to use its or his best efforts promptly to take or cause to be taken all action and promptly to do or cause to be done all

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things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement.

9. Termination. This Agreement shall terminate upon the disbursement or issuance of all shares of Warrant Stock, Contingent Stock and Contingent Warrant Stock in accordance with the terms hereof.

10. Arbitration. All disputes, claims and other matters in controversy arising directly or indirectly out of or related to this Agreement, or the breach hereof, whether contractual or non-contractual, shall be determined by arbitration and shall be settled by three arbitrators, one of whom shall be appointed by HPX, one by the Monterey Shareholders and the third of whom shall be appointed by the first two arbitrators. Persons eligible to be selected as arbitrators shall be limited to attorneys who have been in practice at least 15 years specializing in corporate and securities laws matters and who have had both training and experience as arbitrators ("Experienced Arbitrators"). If either party fails to appoint an arbitrator within ten (10) days of a request in writing by the other such person to do so or if the first two arbitrators cannot agree on the appointment of a third arbitrator within thirty days, then such arbitrator shall be appointed by the American Arbitration Association (which appointment shall not be limited to Experienced Arbitrators if not made within the applicable time period). Except as to the selection of arbitrators which shall be as set forth above, the arbitration shall be conducted promptly and expeditiously as such place in Phoenix, Arizona agreed to between HPX and the Monterey Shareholders in accordance with the Commercial Rules of Arbitration of the American Arbitration Association then in effect so as to enable the arbitrators to resolve the disputes, claims and other matters in controversy within forty-five (45) days of the commencement of the arbitration proceedings. The arbitrators shall base their award on applicable law and judicial precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based and may award temporary or permanent equitable relief. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators' resolution of the dispute shall be final, binding and non-appealable. The nonprevailing party shall bear the expenses of the arbitrators and the arbitration, including reasonable attorneys' fees and costs.

11. Notice. Any notice required or permitted under this Agreement must be in writing and will be deemed to have been given when delivered personally or by overnight courier service on three days after being sent by mail, postage prepaid, at the address indicated below or to such changed address as such person may subsequently give such notice of:

If to HPX: Homeplex Mortgage Investments Corporation
5333 North Seventh Street
4
Suite 219
Phoenix, Arizona 85014
Attn: Corporate Secretary

If to Monterey Shareholders: William W. Cleverly
5627 N. Casa Blanca Road
Paradise Valley, Arizona 85253

Steven J. Hilton
5265 N. Wilkinson
Paradise Valley, Arizona 85253

12. Binding Nature of Agreement; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Agreement or any right, remedy, obligation or liability hereunder may be transferred or assigned by the Monterey Shareholders without the prior written consent of HPX; provided, however, that any transfer or assignment of the Monterey Shareholders' rights to receive Warrant Stock, Contingent Stock or Contingent Warrant Stock hereunder shall be made in accordance with the Articles of Incorporation of HPX, and any transferee shall be subject to the conditions hereof.

13. Governing Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed in accordance with the internal laws, and not the law of conflicts, of the State of Arizona.

14. Entire Agreement. This Agreement and the Merger Agreement embodies the complete agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior written, or prior contemporaneous oral, understandings or agreements between the parties that may have related in any way to the subject matter hereof. This Agreement may be amended only in writing executed by HPX and the Monterey Shareholders.

15. Paragraph Headings. The paragraph headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

16. Counterparts. This Agreement may be executed in counterparts, each of which shall

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be deemed an original, but all of which shall constitute one and the same document.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

HOMEPLEX MORTGAGE INVESTMENTS CORPORATION,
a Maryland corporation

By: /s/ Jay R. Hoffman
.....
Jay R. Hoffman, President

THE MONTEREY SHAREHOLDERS

/s/ William W. Cleverly
.....
William W. Cleverly

/s/ Steven J. Hilton
.....
Steven J. Hilton

Ernst & Young LLP

March 27, 1997

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Gentlemen:

We have read Item 9 of Form 10-K dated January 22, 1997 of Monterey Homes Corporation (formerly Homeplex Mortgage Investments Corporation) and are in agreement with the statements contained in the second paragraph under the heading "Changes in Registrant's Certifying Accountant" under Item 9 in the Form 10-K. We have no basis to agree or disagree with other statements of the registrant contained therein.

Ernst & Young LLP

MONTEREY HOMES CORPORATION
SIGNIFICANT SUBSIDIARIES
1996

Name	State of Incorporation
----- Monterey Homes Arizona I, Inc.	Arizona
Monterey Homes Construction I, Inc.	Arizona
EMIC Finance Corporation	Arizona

CONSENT OF KPMG PEAT MARWICK LLP

The Board of Directors
Monterey Homes Corporation:

We consent to incorporation by reference in the Registration Statement (No. 33-38230 on Form S-8) of Monterey Homes Corporation (formerly Homeplex Mortgage Investments Corporation) of our report dated February 21, 1997, relating to the consolidated balance sheet of Monterey Homes Corporation and subsidiaries as of December 31, 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended which appears in the December 31, 1996 annual report on Form 10-K of Monterey Homes Corporation.

KPMG PEAT MARWICK LLP

Phoenix, Arizona
March 27, 1997

Consent of Independent Auditors

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

Ernst & Young LLP

Phoenix, Arizona
March 27, 1997

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