

ATTACHMENT NO. 10

FORM OF PROMISSORY NOTE

[First referenced, Section __, Attachment No. 9

**FORM OF
PROMISSORY NOTE AND AGREEMENT ("NOTE")**

**NOT TO EXCEED
\$5,500,000**

_____, 200__
_____, California

FOR VALUE RECEIVED, THE **REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY**, a public body, corporate and politic (the "Agency"), having an address at County Administrative Offices, 168 West Alisal, Salinas, CA 93901, promises to pay **EAST GARRISON PARTNERS I, LLC**, a _____ ("Developer"), the principal sum not to exceed FIVE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$5,500,000), or so much of such principal as may be advanced by the Developer (the "Principal Sum") together with interest at the rate set forth below. **[NOTE: PRINCIPAL AMOUNT MAY BE ADJUSTED AS IT IS INDEXED TO ENR COST INDEX, AS DEFINED IN SECTION B. OF ATTACHMENT NO. 4.]**

This Note is made and delivered pursuant to and in implementation of that certain Disposition and Development Agreement (the "DDA") between the Agency and Developer, dated _____, 2005, in connection with the vertical construction of housing units in the Project (as defined in the DDA) to be made available and restricted to occupancy by persons and families of very low and low income. Defined terms in this Note shall have the meanings used in the DDA unless otherwise defined herein. Pursuant to Section H.b. of Attachment No. 4 to the DDA, and subject to the priorities set forth in said Section H.b., the Agency has agreed to pledge and devote to the Project its share of the net tax increment produced by the Project and allocable under State law to the Agency, up to \$48,469 (indexed to the ENR Cost Index) per very low income and low income unit (not to exceed a total amount of \$9.5 million (indexed to the ENR Cost Index)), solely for the purpose of subsidizing the costs related to vertical construction of said units in the Project. Said Section H.b. further provides that, if tax increment is not available when needed for construction of the very low or low income units, the Developer will advance those funds up to but not to exceed \$5.5 million (indexed to the ENR Cost Index) (the Shortfall Loan") that the Agency is obligated to contribute for the very low and low income units. This Note represents the amount of Shortfall Loan which is advanced for or on behalf of the Agency pursuant to Section H.b. of Attachment No. 4 to the DDA.

This Note is a special limited obligation of the Agency payable solely from tax increment Bond proceeds or Available Tax Increment Revenues from the Project (as defined below). This Note shall not be deemed an obligation of the County of Monterey or any other entity other than the Agency.

1. Definitions.

a. "Agency's Subsidy Obligation" means an amount, up to \$48,469 per very low income and low income unit, to be paid by the Agency solely for the purpose of subsidizing the costs related to vertical construction (hard costs only, not including, by way of example, site preparation costs, infrastructure costs, permits, fees and exactions) of the units in the Project to be made available and restricted to occupancy by person and families of very low and low income. The Agency's Subsidy Obligation is exclusive of any subsidy to be provided by the Developer or a Rental Affordable Housing Developer, as provided for under Section H.b. of Attachment No. 4 to the DDA.

b. "Available Tax Increment Revenues from the Project" shall mean the property tax revenues paid to and received by the Agency from the entire East Garrison Project pursuant to Health and Safety Code Section 33670, less (a) any amounts required to be allocated to and paid to affected taxing agencies pursuant to Health and Safety Code Section 33607.5, and less (b) the Agency's actual annual costs of administering the Project not otherwise reimbursed by the Developer, estimated at the lesser of total increment or \$300,000 escalated at 3% per year from non-housing funds based on net increment after statutory pass-throughs, which costs are to be paid from Available Tax Increment Revenues from the Project as the first priority order pursuant to Section H.b. of Attachment No. 4 to the DDA.

2. Principal Sum. The Principal Sum of this Note shall be the aggregate amount of all advances of the Agency's Subsidy Obligation paid by the Developer for or on behalf of the Agency in accordance with Section H.b. of Attachment No. 4 to the DDA. On the date hereof, the Developer has advanced and paid for or on behalf of the Agency the sum of _____ DOLLARS (\$_____), which amount shall be denoted on the Exhibit A attached hereto, and which amount shall be periodically increased by the amount of the Developer's subsequent advances paid for or on behalf of the Agency in accordance with Section H.b. of Attachment No. 4 to the DDA.

The date and amount of each additional advance of the Agency's Subsidy Obligation paid directly to the Agency shall be noted and initialed by the Agency and Developer on the Exhibit A attached hereto.

This Note shall be cumulative, ultimately reflecting the total amount of the Developer's advances of the Agency's Subsidy Obligation paid for or on behalf of the Agency, which shall not exceed the principal amount of FIVE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$5,500,000) (indexed to the ENA Cost Index).

3. Interest. Interest shall accrue on the outstanding Principal Sum at the higher of Seven Percent (7%) or One Percent (1%) over the prime interest rate announced by Wells Fargo Bank, N.A., from time to time, compounded annually until repaid in full; provided that in the event of a default by the Agency under Section 9 of this Note, interest shall accrue from the time of such default on the Principal Sum plus any unpaid interest thereon at the higher of Nine

Percent (9%) or Two Percent (2%) over the prime commercial interest rate announced by Wells Fargo Bank, N.A., from time to time, compounded annually until said default is cured.

4. Secured Note. This Note shall be secured by, and shall constitute a lien by the Developer against, the Available Tax Increment Revenues from the Project, and except as hereinafter provided, upon a default in payment of this Note, the Developer shall be entitled to enforce payment of this Note against the Agency to the full extent of the Available Tax Increment Revenues from the Project.

5. Transfer and Assignment. This Note may be assigned or transferred by the Developer at its option; provided that the Developer shall notify the Agency in writing prior to any such assignment or transfer.

6. Limited Recourse Note. This is a limited recourse Note whereby the Agency has no personal liability for repayment of the sums evidenced hereby, and the Developer must resort only to the Available Tax Increment Revenues from the Project for repayment should the Agency fail to repay the sums evidenced hereby.

7. Prepayment. The Agency shall have the right to prepay, at any time and from time to time, all or any portion of the Principal Sum, together with any accrued interest, of this Note without any premium or penalty.

8. Payments. The Agency shall make payments on this Note not later than thirty (30) days following the receipt by the Agency of Available Tax Increment Revenues from the Project or proceeds of Tax Allocation Bonds. The Agency shall apply its tax increments and proceeds of tax Allocation Bonds to effectuate the repayment of this Note in the earliest feasible time. Payments shall be credited first to any accrued but unpaid interest, and then to unpaid principal under this Note. Payment shall be made in lawful money of the United States to Developer, _____. The place of payment may be changed from time to time as the Developer may from time to time designate in writing.

9. Defaults. The occurrence of any of the following shall constitute an event of default under this Note: (i) Agency fails to pay any amount due hereunder within fifteen (15) days of its due date; or (ii) Any default by Agency under the DDA after the expiration of applicable notice and cure periods.

Upon the occurrence of any event of default, or at any time thereafter, at the option of the Developer hereof and without notice, the entire unpaid principal and interest owing on this Note shall become immediately due and payable. This option may be exercised at any time following any such event, and the acceptance of one or more installments thereafter shall not constitute a waiver of Developer's option. Developer's failure to exercise such option shall not constitute a waiver of such option with respect to any subsequent event. Developer's failure in the exercise of any other right or remedy hereunder or under any agreement which secures the indebtedness or is related thereto shall not affect any right or remedy and no single or partial exercise of any such right or remedy shall preclude any further exercise thereof

10. Attorneys' Fees; Enforcement Costs. If either party commences an action against the other to enforce or interpret any provision of this Note, the prevailing party shall be entitled to have and recover reasonable attorneys' fees and costs of suit from the other party. The Agency agrees to pay all reasonable collection and enforcement costs, expenses and attorneys' fees paid or incurred by the Developer or adjudged by a Court in any action required to be brought by the Developer to enforce collection of any sums owed hereunder.

11. Waivers. Agency and any endorsers hereof and all others who may become liable for all or any part of this obligation, severally waive presentment for payment, demand and protest and notice of protest, and of dishonor and nonpayment of this Note, and expressly consent to any extension of the time of payment hereof or of any installment hereof, to the release of any party liable for this obligation, and any such extension or release may be made without notice to any of said parties and without any way affecting or discharging this liability.

12. Notices. Any notices provided for in this Note shall be given by mailing such notice by certified mail, return receipt requested at the address stated in this Note or at such address as either party may designate by written notice.

13. Binding Effect. This Note shall be binding upon Agency, its successors and assigns.

14. Invalidity. If any provision of this Note shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

15. Governing Law. This Note shall be governed by and be construed in accordance with the laws of the State of California.

AGENCY:

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By _____
Executive Director

ATTEST:

By: _____
Secretary

DEVELOPER:

EAST GARRISON PARTNERS I, LLC,
a California limited liability company

BY: WOODMAN DEVELOPMENT COMPANY LLC,
a California limited liability company, as a member

By: Woodman Development Company, Inc.,
a California corporation, as its
managing member

By: _____
John Anderson
President

and

BY: LYON EAST GARRISON COMPANY I, LLC,
a California limited liability company, as a member

By: William Lyon Homes, Inc., a
California corporation, as its
managing member

By: _____

Its: _____

By: _____

Its: _____

EXHIBIT A

LIST OF ADVANCES OF PRINCIPAL

<u>Date</u>	<u>Amount</u>	<u>Agency's Initials</u>	<u>Developer's Initials</u>
	\$		

ATTACHMENT NO. 11

LIST OF PRE-APPROVED LENDERS

[First referenced, Section 205]

[Note: Bracketed lenders to be confirmed by Agency staff prior to execution of this Agreement.]

California Bank & Trust, a California banking corporation

Guaranty Bank, a federal savings bank organized and existing under the laws of the United States

RFC Construction Funding Corp., a Delaware corporation

California National Bank, a national banking association

Indymac Bank, F.S.B.

Comerica Bank-California, a California banking corporation

Bank One, a national banking association

Lowe Enterprises Residential Advisors, LLC, a Delaware limited liability company

[Hearthstone, Inc., a California corporation]

[IHP Capital Partners, a California corporation (fka Institutional Housing Partners, Inc.)]

[Resmark Equity Partners, LLC, a Delaware limited liability company]

La Salle Bank

Weyerhaeuser Realty Investors Inc., a Washington corporation

[Capstone Realty Advisors]

Bank of America

Wachovia Bank, N.A.

J.P. Morgan Chase Bank, NA

[LNR Western Properties, Inc.]

Lehman Bros.

[Rockpointe LLC]

[Westbrook LLC]

[Terrabrook LLC]

Exhibit 1 to
Attachment No. 9

ATTACHMENT NO. 12

RECORDED AT THE REQUEST OF
AND WHEN RECORDED RETURN TO:

Space Above this Line for Recorder's Use Only

**FORM OF CERTIFICATE OF COMPLETION OF
CONSTRUCTION AND DEVELOPMENT**

MONTEREY COUNTY REDEVELOPMENT PROJECT

**EAST GARRISON PROJECT
FORD ORD, COUNTY OF MONTEREY
[PARCEL _____]**

WHEREAS, pursuant to a Disposition and Development Agreement dated _____, 2005 (the "DDA"), by and between the REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY (hereinafter referred to as the "Agency") and EAST GARRISON PARTNERS I, LLC, a California limited liability company (hereinafter referred to as the "Developer"), the Developer [or its assignee: _____] is developing or has developed the real property (the "Property") legally described on the attached Exhibit A by constructing, or causing to be constructed, the improvements thereon according to the terms and conditions of said DDA; and

WHEREAS, the Property constitutes a portion of the entire Site (as defined in the DDA) which is subject to the DDA; and

WHEREAS, pursuant to Section 320 of the DDA, promptly after completion of all work of construction and development to be completed by the Developer upon any portion of the Site or Phase thereof (including, without limitation, individual facilities, improvements, buildings or structures), the Agency is required to furnish the Developer with a Certificate of Completion for such portion of the Site or Phase thereof, upon written request therefor by the Developer; and

WHEREAS, the issuance by the Agency of a Certificate of Completion shall be conclusive evidence that the Developer has satisfactorily completed the work of construction and development as described in Exhibit B in full compliance with the terms of the DDA pertaining to the development of such portion or phase of the Site; and

WHEREAS, the Developer has requested that the Agency furnish the Developer with a Certificate of Completion pertaining to that portion of the Site constituting the Property; and

WHEREAS, the Agency has conclusively determined that the work of construction and development on the Property as described in Exhibit B, and as required by the DDA has been satisfactorily completed;

NOW, THEREFORE:

1. As provided in the DDA, the Agency does hereby certify that the work of construction and development on the Property as described in Exhibit B has been fully and satisfactorily performed and completed, and that such development is in full compliance with said DDA. **[INSERT ADDITIONAL STATEMENT FOR FINAL CERTIFICATE:** Agency further does hereby certify that ALL work of construction and development to be completed by Developer under the DDA has been satisfactorily performed and completed and this document is the FINAL Certificate of Completion pertaining to the Property]

2. Any party owning or hereafter purchasing, leasing or otherwise acquiring any interest in the Site or such Phase or portion thereof covered by this Certificate of Completion shall not (because of such ownership, purchase, lease or acquisition) incur any obligation or liability under the DDA, except that such party shall be bound by any covenants contained in the deed, lease, mortgage, deed of trust, contract or other instrument of transfer, including without limitation those contained in Sections 401-405 of the DDA. Except as otherwise provided herein, neither the Agency, the County nor any other person shall have any rights, remedies or controls with respect to the Site or such Phase or portion thereof as described in Exhibit B that it would otherwise have or be entitled to exercise under the DDA as a result of a default in or breach of any provision of the DDA, and the respective rights and obligations of the parties with reference to the Site or applicable Phase or portion thereof shall be as set forth in the quitclaim deed of the Site from the Agency to the Developer, which shall be in accordance with the provisions of Sections 401-405 of the DDA.

3. This Certificate of Completion shall not constitute evidence of compliance with or satisfaction of any obligation of the Developer to any holder of a mortgage or any issuer of a mortgage securing money loaned to finance the improvements or any part thereof. Such Certificate of Completion is not a notice of completion as referred to in California Civil Code Section 3093.

IN WITNESS WHEREOF, the Agency has executed this Certificate as of this ____ day
of _____, 200__.

"AGENCY":

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By: _____
Executive Director

ATTEST:

By: _____
Secretary

ACCEPTED BY:

"DEVELOPER [OR "ASSIGNEE"]:

By: _____

Its: _____

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

[To Be Inserted – To include only that portion or phase of the Site covered by the Certificate of Completion.]

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
COUNTY OF _____)

On _____, before me, the undersigned notary public, personally appeared _____,

- personally known to me; or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and acknowledged to me that he / she executed the same in his / her authorized capacity, and that by his / her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Type of Document: _____

* * * * *

STATE OF CALIFORNIA)
COUNTY OF _____)

On _____, before me, the undersigned notary public, personally appeared _____,

- personally known to me; or
- proved to me on the basis of satisfactory evidence

to be the person whose name is subscribed to the within instrument and acknowledged to me that he / she executed the same in his / her authorized capacity, and that by his / her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Type of Document: _____

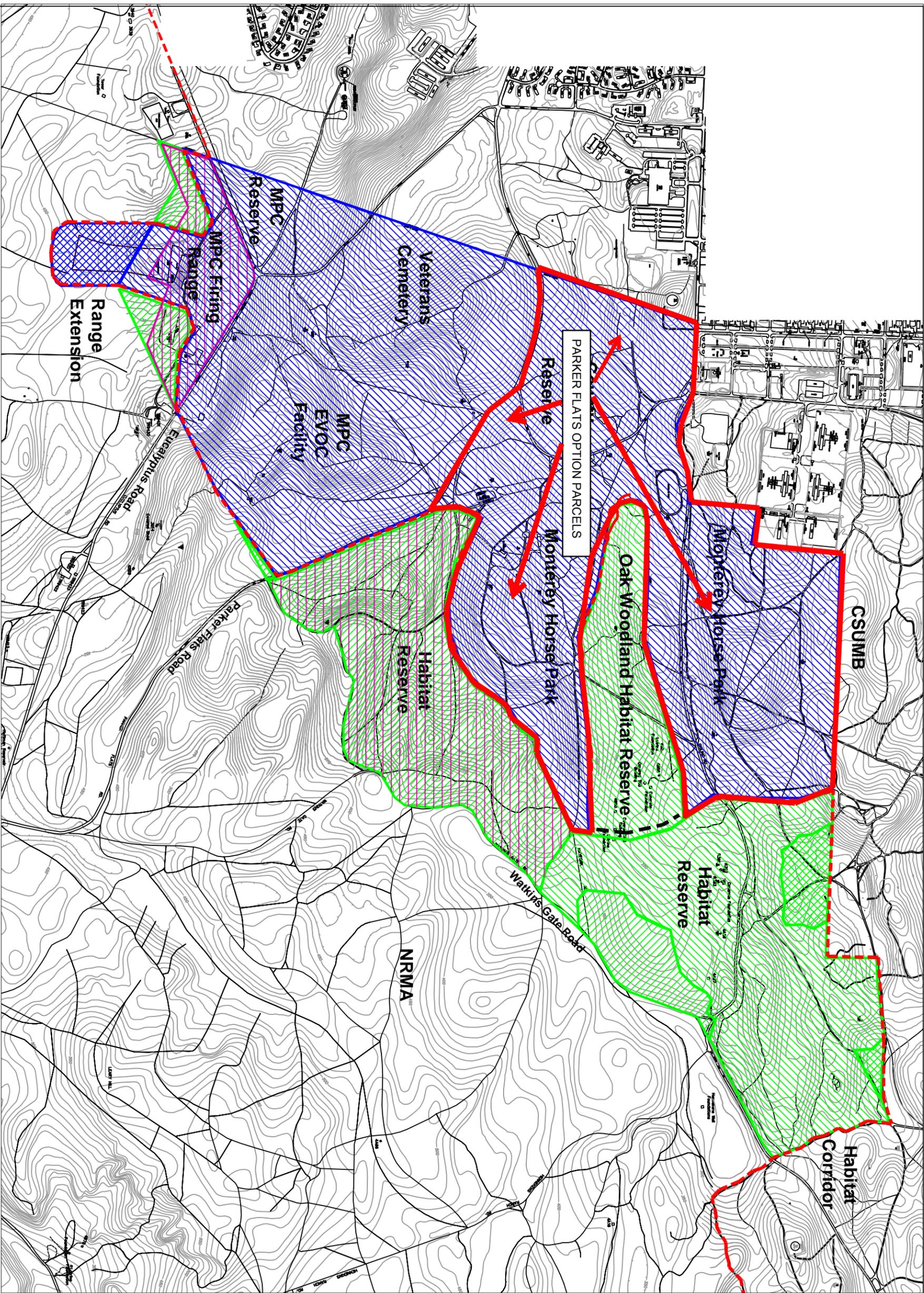
ATTACHMENT 13-A
MAP OF OPTION PARCELS

[NOTE: COLORED MAPS TO BE ATTACHED TO
EXECUTION COPIES OF THIS AGREEMENT.]

ATTACHMENT NO. 13-B
MAP OF THE OPTION PARCELS

[NOTE: COLORED MAPS TO BE ATTACHED TO
EXECUTION COPIES OF THIS AGREEMENT.]

ATTACHMENT NO. 13a
 MAP OF OPTION PARCELS
 (PARKER FLATS)



Scale: 1" = Approx. 1200'

LEGEND

- Habitat Reserve areas:
- Oak woodland
- Maritime chaparral
- Grassland
- Development
- Designated development
- Extended development
- Areas mechanically cleared
- Proposed location of Horse Park cross country trail
- Boardlands

Zander Associates
 Environmental Consultants
 150 Ford Way, Suite 101
 Novato, CA 94945
 (415) 897-8781

Parker Flats
 Development Concept

Figure
 5

ATTACHMENT NO. 14

[INTENTIONALLY OMITTED]

ATTACHMENT NO. 15

[INTENTIONALLY OMITTED]

ATTACHMENT NO. 16

**FORM OF
ASSIGNMENT AND ASSUMPTION AGREEMENT**

[SUBJECT TO CONFORMING CHANGES PRIOR TO TRANSFER; MAY BE COMBINED INTO AGREEMENT ASSIGNING RIGHTS UNDER DEVELOPMENT AGREEMENT]

**RECORDED AT THE REQUEST OF
AND WHEN RECORDED, RETURN TO:**

PARTIAL ASSIGNMENT AND ASSUMPTION AGREEMENT

*(PARCEL _____, PURSUANT TO DISPOSITION AND
DEVELOPMENT AGREEMENT AND AGENCY DEED: EAST GARRISON PROJECT)*

THIS PARTIAL ASSIGNMENT AND ASSUMPTION AGREEMENT (herein "this Agreement") is entered into as of _____, 200__, by and among EAST GARRISON PARTNERS I LLC, a California limited liability company (herein "Master Developer") and _____, a _____ (herein "Assignee") and [is consented to] [acknowledged and accepted] by the REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY ("Agency") [and approved by the County of Monterey ("County")].

RECITALS

A. Master Developer entered into a Disposition and Development Agreement with the Agency dated as of _____, 2005 (the "DDA") setting forth rights, terms and conditions and requirements for the acquisition and development of certain real property described therein (the "Site") and referred to as the East Garrison project. Pursuant to the DDA, the property subject to this Agreement will be developed as part of a new mixed-use community with residential, commercial, office, research, public, cultural, recreation, park and open space land uses (the "Project").

B. Master Developer owns a portion of the Site pursuant to that certain quitclaim deed, dated as of _____, from the Agency to Master Developer, which deed

was recorded in the Official Records of the Monterey County Recorder on _____, 200_, as Instrument No. _____ (the "Agency Deed"), setting forth certain disclosures, covenants, restrictions and requirements pertaining to the Assigned Parcel (as defined below), as well as the Remaining Site (as defined below).

C. Subject to Agency approval as provided in the DDA, the Master Developer desires to [convey/lease] and assign to Assignee, its interests under the DDA as to that portion of the Site identified and described in Exhibit 1, attached hereto and incorporated herein by this reference (herein the "Assigned Parcel"). The remainder of the Site as described in the DDA shall be hereafter referred to as the "Remaining Site."

D. Assignee desires to be bound by and assume all of the Master Developer's obligations and other terms and conditions under the DDA and Agency Deed and with respect to the Assigned Parcel.

E. Agency has determined that this Agreement satisfies the requirements of the DDA and Agency Deed with respect to the transfer of the Assigned Parcel.

[F. In consenting hereto, the County has determined that this Agreement also satisfies the requirements pertaining to the transfer and assignment of the Assigned Parcel under that certain Development Agreement (the "DA") between the Master Developer and the County, dated as of _____, and recorded in the Official Records of the Monterey County Recorder on _____, as Instrument No. _____.]

AGREEMENTS

NOW, THEREFORE, THE MASTER DEVELOPER AND ASSIGNEE HEREBY AGREE AS FOLLOWS:

1. Transfer of Assigned Parcel. Subject to all of the terms and conditions of that certain [Purchase and Sale Agreement/Lease] (the "Transfer Document"), Master Developer intends to transfer the Assigned Parcel to Assignee subject to the terms of the DDA and the Agency Deed applicable to the Assigned Parcel, and Assignee agrees to accept such transfer subject to the terms and conditions of the DDA and Agency Deed applicable to the Assigned Parcel, including but not limited to those provisions for performance in the development of the Assigned Parcel, restrictions on subsequent assignments, and rights and remedies in the event of default. The Transfer Document, in addition to other rights and remedies, reserves to the Master Developer the right to exercise certain remedies of reverter and repurchase under the Agency Deed prior to the exercise by the Agency of such rights retained by the Agency in the DDA and Agency Deed. Certain relevant provisions of the Transfer Document are attached hereto as Exhibit 5 and incorporated herein by reference.

2. Assignment by Master Developer. Subject to the terms and conditions of this Agreement, as of the Effective Date (as determined under Section 6 hereof), Master Developer hereby assigns, transfers and grants to Assignee, and its successors and assigns, all of the

Assigned Development Rights and Obligations, as such term is defined in Section 8 below. The Retained Development Rights and Obligations (as such term is defined in Section 8 of this Agreement) are hereby retained by the Master Developer and the Remaining Site.

3. Acceptance and Assumption by Assignee. Subject to the terms and conditions of this Agreement, as of the Effective Date (as determined under Section 6 hereof), Assignee, for itself and its assignors and assigns, hereby accepts such assignment and assumes all of the Assigned Development Rights and Obligations. Except as expressly provided in this Agreement, Assignee agrees, expressly for the benefit of the Agency, to comply with, perform and execute all the covenants and obligations of Master Developer under the DDA and Agency Deed arising from or under the Assigned Development Rights and Obligations.

4. Effect of Assignment.

(a) Approval or acceptance of this Agreement by the Agency shall not be deemed to create any responsibility on the part of Assignee for the performance or satisfaction of the Retained Development Rights and Obligations and the Remaining Site and Agency shall look solely to the Master Developer and/or its assignees for the performance of such obligations, it being understood and agreed that the failure of the Master Developer and/or its assignees to timely perform all or any of such Retained Rights and Obligations shall not delay or prevent development of or the issuance of building permits or certificates of occupancy for the Assigned Parcel except to the extent such failure by the Master Developer and/or its assignees relates to satisfaction of conditions precedent under the DDA, if any, to the issuance of building permits, such as backbone infrastructure or services to serve the Assigned Parcel, or the timely construction and completion of affordable rental housing as set forth in Attachment No. 3 of the DDA. Approval or acceptance of this Agreement by the Agency shall be deemed to relieve the Master Developer and/or its assignees from any and all responsibility or liability for the Assigned Parcel and the performance of the Assigned Rights and Obligations and Agency shall look solely to the Assignee for the performance of such obligations, subject to the rights (but not the obligations) of the Master Developer to enforce such obligations pursuant to Section 12 of this Agreement, it being understood and agreed that the failure of Assignee for the performance of the Assigned Rights and Obligations (except with respect to any rental affordable housing obligations assumed by the Assignee) shall not delay or prevent development of or the issuance of building permits or certificates of occupancy for the Remaining Site.

(b) Without limiting the foregoing, Agency [approval/acceptance] of this Agreement shall constitute Agency consent and agreement to the following:

- (i) Agency hereby acknowledges and agrees that a default under the DDA with respect to the Remaining Site by the Master Developer which is not caused by Assignee or a breach of the DDA with respect to the Remaining Site by any third party (other than Assignee) or by any of their respective agents, employees or contractors, shall not constitute a default or breach of the DDA on the part of Assignee with respect to the Assigned Parcel; however, it is understood that a default by the Master Developer under

certain circumstances set forth in the DDA, as referenced in the first sentence of subsection (a) of this Section 4, could impact the issuance of building permits for the Property.

- (ii) Agency is not aware of any breach or default by the Master Developer referred to above with respect to any portion of the Assigned Parcel or the Assigned Development Rights and Obligations hereby transferred to Assignee.
- (iii) Pursuant to the DDA, Agency has [approved/accepted] the qualifications and financial capability of Assignee to carry out the development of the Assigned Parcel hereby transferred from Master Developer to Assignee.
- (iv) Agency hereby acknowledges and agrees that a default under the DDA by Assignee with respect to the Assigned Parcel which is not caused by the Master Developer shall not constitute a default or breach of DDA on the part of the Master Developer with respect to the Assigned Parcel or the Remaining Site.
- (v) The DDA with respect to the Assigned Parcel and the Assigned Rights and Obligations may not be amended by the Agency and Assignee without the Master Developer's express written consent so long as the Master Developer retains an ownership or possessory interest in the Site.
- (vi) For the period that the Master Developer retains an interest in the Site under the DDA, the DDA with respect to the Remaining Site and with respect to the Master Developer's Retained Rights and Obligations, may be amended without Assignee's consent (but following prior written notice to Assignee; provided, however, the timely delivery of said notice shall not be a condition to the validity of any such amendment) so long as the amendments do not impose any additional burdens or obligations on Assignee or impair Assignee's ability to develop the Assigned Parcel.

5. Substitution of Assignee. Assignee hereby assumes, as applicable to the Assigned Parcel, all of the burdens and obligations of the Master Developer under the DDA and Agency Deed and agrees to observe and fully perform all of the duties and obligations of the Master Developer under the DDA and Agency Deed as applicable to the Assigned Parcel and to be subject to all the terms and conditions thereof, with respect to the Assigned Parcel, it being the express intention of both the Master Developer and Assignee that, upon the effective date of this Agreement, Assignee shall, subject to the terms and conditions of this Agreement become substituted for the Master Developer as the "Developer" under the DDA and Agency Deed with respect to the Assigned Parcel.

6. Effective Date. The Effective Date of this Agreement shall be the date of its recordation in the Official Records of the Recorder of Monterey County. The Effective Date of this Agreement shall be entered in the introductory paragraph of this Agreement and shall be recorded by the parties immediately preceding conveyance or transfer of the Assigned Parcel to Assignee.

7. Assignee Representations and Warranties. Assignee warrants and represents to the Agency as a material inducement to its approval of the assignment hereunder, that Assignee has independently reviewed, analyzed, and understands the effect and conditions of the DDA and Agency Deed, the County's approval of the East Garrison Specific Plan and other County Development Approvals (as defined in the DDA) pertinent to the development of the Assigned Parcel. Assignee further warrants and represents to the Agency that except as may be expressly set forth in Sections 9 and 10 below, it is not relying upon any representations on the part of the Agency or any of its officers, agents or employees as to the status or effect of such matters.

8. Assignment of Development Rights and Obligations Related to the Assigned Parcel. As used herein "Assigned Development Rights and Obligations" means all of Master Developer's rights, title and interest (hereinafter collectively "Rights") and obligations, duties, responsibilities, conditions and restrictions (hereinafter collectively "Obligations") under the DDA and Agency Deed, but only to the extent those Rights or Obligations are applicable to Assignee and/or the Assigned Parcel. The Assigned Development Rights and Obligations are set forth or referenced in the following exhibits to this Agreement; which are incorporated herein by reference:

- Exhibit 1: Location and Legal Description of Assigned Parcel
- Exhibit 2: Permitted Uses and Scope of Development for Assigned Parcel
- Exhibit 3: Schedule of Performance for the Assigned Parcel
- Exhibit 4: Provisions of DDA and Agency Deed Applicable to Assigned Parcel
- Exhibit 5 Certain Relevant Portions of the Transfer Document

Any and all Rights and Obligations not expressly within the Assigned Development Rights and Obligations are hereby retained by the Master Developer and the Remaining Site ("Retained Development Rights and Obligations").

9. Other Provisions.

(a) Commencement and Completion of Development: The Assignee shall commence and complete development within the time provided therefor in the Schedule of Performance attached hereto as Exhibit 3, subject to Enforced Delays under Section 604 of the DDA.

(b) Uses; Scope of Development; Approval of Construction Plans: The Assignee shall use and develop the Assigned Parcel in accordance with the Permitted Uses and Scope of Development for Assigned Parcels attached hereto as Exhibit 2. The Assignee shall submit its construction plans to the County of Monterey for approval pursuant to the Development Approvals, which shall include the Pattern Book.

(c) Reversionary Deeds:

- (i) The Assignee shall deliver to the escrow holder under the Transfer Document an executed and acknowledged reversionary deed in the form reasonably satisfactory to the Master Developer with irrevocable instructions directing the escrow holder to record the reversionary deed upon the Master Developer's written notice that the Assignee has committed an uncured reversionary default under Section 512 of the DDA.
- (ii) The Assignee shall deliver to the escrow holder under the Transfer Document an executed and acknowledged reversionary deed in substantially the form attached to the DDA as Attachment No. 8-B with irrevocable instructions directing the escrow holder to record the reversionary deed upon the Agency's written notice that the Assignee has committed an uncured reversionary default under Section 512 of the DDA and the Master Developer has failed to exercise its remedies pertaining thereto (and after exhaustion of remedies under Section 513).
- (iii) Reversionary defaults for purposes of subsections (a) and (b) shall include, but not be limited to, as set forth in Section 512 of the DDA, a violation of the Schedule of Performance (Exhibit 3 hereto) or a transfer in violation of the transfer and assignment provisions of the DDA or this Assignment and Assumption Agreement.

[10. [USE WHERE AGENCY APPROVAL REQUIRED UNDER DDA]

Agency Approval of Assignment and Conditions of Approval. Subject to the terms and conditions of this Agreement the Agency hereby approves and consents to (i) the assignment of the DDA and the Agency Deed, as to the Assigned Parcel, to Assignee, and (ii) the assignment of the Assigned Development Rights and Obligations to Assignee.]

[11. [USE WHERE AGENCY APPROVAL NOT REQUIRED UNDER DDA] Subject to the terms and conditions of this Agreement the Agency hereby acknowledges and accepts (i) the assignment of the DDA and the Agency Deed, as to the Assigned Parcel, to assignee, and (ii) the assignment of the Assigned Development Rights and Obligations to Assignee.]

12. Remedies of Master Developer.

(a) Master Developer shall have the right to enforce the provisions of this Agreement and Assignee's obligations under the Assigned Development Rights and Obligations by any appropriate legal or equitable actions and remedies in the event of any delay, failure to perform or breach by Assignee under the provisions of this Agreement or the Assigned Development Rights and Obligations assumed by Assignee.

(b) The remedies set forth in the DDA that are available to the Agency in the event of an uncured material default by the Master Developer shall also be available to the Agency and the Master Developer in the event of an uncured material default by the Assignee, including termination of the title of the Assignee in the Assigned Parcel in the first instance in favor of the Master Developer, and if the Master Developer fails to exercise its rights, in favor of the Agency.

13. Remedies of Agency. Subject to the right of Master Developer to first exercise its rights under Section 12 above and relevant provisions of the DDA, Agency shall have the right under the DDA and the Agency Deed to enforce the provisions of this Agreement and the Assigned Development Rights and Obligations by any appropriate legal or equitable actions and remedies in the event of any delay, failure to perform or breach by Assignee under the provisions of this Agreement or the Assigned Development Rights and Obligations assumed by Assignee.

14. Master Developer Deed to Assignee. The deed from the Master Developer to the Assignee shall include, among other things, a condition subsequent to the effect that in the event of a material default by the Assignee and the failure of the Master Developer to enforce the terms of the Assignment and Assumption Agreement or revert title in the Assigned Parcel to the Developer in the first instance, the Agency may declare a termination in favor of the Agency of the title and all of the rights and interests in the Assigned Parcel conveyed by the deed to the Assignee.

15. Successors and Assigns. All of the covenants, terms and conditions set forth herein shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, successors and assigns.

16. Amendments. Assignee acknowledges and agrees that Master Developer and Agency may amend the DDA from time to time without the consent of Assignee; provided that no amendment which would have the effect of increasing the burdens or obligations of Assignee with respect to the Assigned Parcel or impairing the ability of Assignee to develop the Assigned Parcel shall be effective without the express written consent of Assignee, except as otherwise permitted under the terms of the DDA existing prior to such amendment.

17. Vertical Development Insurance Requirements

Prior to the commencement of vertical construction on the Assigned Parcel, the Assignee shall furnish or cause to be furnished to the Agency and Master Developer duplicate

originals or appropriate certificates of commercial general liability insurance, with an endorsement naming the Agency, the County and Master Developer as additional or coinsureds, in the amounts set forth in the following chart and based upon the estimated project revenue for each product type within a phase of development. The Assignee shall, upon request, also furnish or cause to be furnished to the Agency, the County and Master Developer evidence satisfactory to the Agency, the County and Master Developer that any contractor with whom it has contracted for the performance of work on the Site carries workers' compensation insurance as required by law. All insurance policies maintained in satisfaction of this section shall contain a provision requiring the insurance carrier to provide thirty (30) days written notice of any cancellation or termination to the Agency and Master Developer. The obligations set forth in this section shall remain in effect until completion of vertical development on the Assigned Parcel, with a ten- (10-) year period ("tail") for filing of claims following any such event. The Agency may, in its discretion, modify the requirements of this Section 17 to accommodate the practices and economic needs of nonprofit affordable housing developers.

Estimated Project Revenues (For each product type within a phase of development)	Required Insurance Levels (Combined Single Limit/General Aggregate)
\$0 million to \$50 million	\$5 million / \$10 million
\$51 million to \$75 million	\$5 million / \$15 million
\$76 million to \$100 million	\$10 million / \$15 million
\$100 million +	\$10 million / \$20 million

18. General Provisions.

(a) Notices. Notices under this Agreement with respect to the Assigned Parcel shall be sent in the manner required by Section _____ of the DDA to Assignee as follows:

Attn.: _____

with a copy thereof to the Master Developer as follows:

Attn.: _____

(b) Applicable Law. This Agreement shall be construed and enforced in accordance with the law of the State of California, without reference to choice of law provisions.

(c) Headings. Section headings in this Agreement are for convenience only and are not intended to be used in interpreting or constraining the terms, covenants or conditions of this Agreement.

(d) Severability. Except as otherwise provided herein, if any provision(s) of this Agreement is (are) held invalid, the remainder of this Agreement shall not be affected, except as necessarily required by the invalid provisions, and shall remain in full force and effect unless amended or modified by mutual consent of the parties.

(e) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original, but all of which, when taken together, shall constitute the same instrument, with the same effect as if all of the parties to this Agreement had executed the same counterpart.

IN WITNESS HEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MASTER DEVELOPER:

EAST GARRISON PARTNERS I, LLC,
a California limited liability company

BY: WOODMAN DEVELOPMENT COMPANY LLC,
a California limited liability company, as a member

By: Woodman Development Company, Inc.,
a California corporation, as its
managing member

By: _____
John Anderson
President

and

BY: LYON EAST GARRISON COMPANY I, LLC,
a California limited liability company, as a member

By: William Lyon Homes, Inc., a California
corporation, as its managing member

By: _____
Its: _____

By: _____
Its: _____

ASSIGNEE:

By: _____

Title: _____

APPROVED AND CONSENTED TO/ACKNOWLEDGED AND ACCEPTED:

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By: _____

Title: _____

"AGENCY"

APPROVED:

COUNTY OF MONTEREY

By: _____

Title: _____

"COUNTY"

ACKNOWLEDGMENTS

**EXHIBIT 1
TO ATTACHMENT NO. 16**

**LOCATION AND
LEGAL DESCRIPTION OF ASSIGNED PARCEL**

All that certain real property situate in the County of Monterey, State of California, and described as follows:

[To Be Inserted.]

**EXHIBIT 2
TO ATTACHMENT NO. 16**

**PERMITTED USES AND
SCOPE OF DEVELOPMENT FOR ASSIGNED PARCEL**

[To Be Inserted.]

**EXHIBIT 3
TO ATTACHMENT NO. 16**

**SCHEDULE OF PERFORMANCE
FOR THE ASSIGNED PARCEL**

[To Be Inserted.]

**EXHIBIT 4
TO ATTACHMENT NO. 16**

**PROVISIONS OF DDA AND
AGENCY DEED APPLICABLE TO ASSIGNED PARCEL**

**[NOTE: SECTIONS REFERENCED BELOW ARE TO BE APPROPRIATELY
MODIFIED (TO INCLUDE, AMONG OTHER MODIFICATIONS, REFERENCES TO
BOTH DEVELOPER AND AGENCY RESERVED APPROVALS AND REMEDIES)
AND TO BE SET FORTH IN FULL AS MODIFIED IN EACH ASSIGNMENT AND
ASSUMPTION AGREEMENT TO BE ENTERED INTO.]**

Wherever the term "Developer" is used in any of the sections set forth below, such term shall refer to the Assignee of this Agreement and further, shall include any permitted nominee, transferee, assignee or successor in interest to the DDA, unless otherwise expressly stated herein. The term "Master Developer" as used herein refers to East Garrison Partners I LLC.

Any of the rights held by the Agency in any of the Sections set forth below (such as rights of review, approval, consent, notification, etc.) shall also be deemed to be rights of the Master Developer. Whenever Assignee is required pursuant to the terms set forth below to provide notice or request the consent or approval of the Agency, the Assignee shall also be required to provide notice or request consent or approval from the Master Developer.

The term "Site" as used in the Sections set forth below shall mean the Assigned Parcel.

The following sections, as modified in accordance with the Note, above, shall be incorporated in Exhibit No. 4 of each Assignment and Assumption Agreement.

[§107] The Developer.

[§108] Special Phasing Conditions: Deed-Restricted Affordable Housing

[§204] "AS IS" Conveyance; Release by Developer.

[§302] Scope of Development

[§306] County and Other Governmental Agency Permits

[§308] Local, State and Federal Laws

[§309] Antidiscrimination During Construction

[§311] Taxes, Assessments, Encumbrances and Liens

[§312] Prohibition Against Transfer of Site, the Buildings or Structures Thereon and Assignment of Agreement

[§314] No Encumbrances Except Mortgages, Deeds of Trust, Sales and Lease-Backs or Other Financing for Development

[§315] Holder Not Obligated to Construct Improvements

[§316] Notice of Default to Mortgage, Deed of Trust or Other Security Interest Holders; Right to Cure

[§317] Failure of Holder to Complete Improvements

[§318] Right of Agency to Cure Mortgage, Deed of Trust or Other Security Interest Default

[§319] Right of the Agency to Satisfy Other Liens on the Site After Title Passes

[§320] Certificate of Completion

[§321] Prevailing Wages

[§401] Uses

[§402] Obligation to Refrain From Discrimination

[§403] Form of Nondiscrimination and Nonsegregation Clauses

[§405] Rights of Access – Public Improvements and Facilities

[§501] Defaults – General

[§503] Institution of Legal Actions

[§504] Applicable Law; Interpretation

[§507] Damages

[§508] Specific Performance

[§512] Right of Reverter

[§513] Dispute Resolution; Legal Action.

[§604] Enforced Delay: Extension of Times of Performance

[§607] Attorneys' Fees

[§608] No Third Party Beneficiaries

[§610] General Indemnity

[§611] Mechanics' Liens

**EXHIBIT 5
TO ATTACHMENT NO. 16**

**RELEVANT PROVISIONS OF
TRANSFER DOCUMENT**

[To Be Inserted.]

ATTACHMENT NO. 17
MAP OF THE MCWD PARCELS

ATTACHMENT NO. 18

**FORM OF
COMPLETION GUARANTY
FOR PHASE ONE**

[SUBJECT TO FINAL REVIEW OF THE PARTIES.]

THIS PHASE ONE COMPLETION GUARANTY ("Phase One Guaranty"), dated as of _____, 200__, is hereby given by **WILLIAM LYON HOMES, INC.**, a California corporation ("Guarantor"), to the **REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY** (the "Agency"), with respect to the following facts:

RECITALS:

A. East Garrison Partners I, LLC, a California limited liability company ("Developer") has entered into that certain Disposition and Development Agreement (Together with Exclusive Negotiation Rights to Certain Property) (the "DDA"), dated _____, 2005, between Developer and the Agency, and approved by the County of Monterey (the "County"). Unless otherwise defined in this Phase One Guaranty, capitalized terms shall have the same meanings as set forth in the DDA.

B. Section 108 of the DDA and Attachment No. 3 thereto provide for the construction of certain deed-restricted affordable housing units in each of three Phases of the Project. Very low and low income rental inclusionary housing units, which constitute a portion of such deed-restricted affordable housing units, are to be developed and constructed in each Phase by a qualified tax credit entity selected by Developer with the reasonable approval of the Agency (a "Rental Affordable Housing Developer") pursuant to an Inclusionary Housing Agreement (Rental Units) approved by the County, the Agency and Developer and entered into with Developer and assigned to and assumed by the Rental Affordable Housing Developer.

C. The DDA further provides that if, notwithstanding its best efforts, a Rental Affordable Housing Developer does not secure timely financing for, or experiences construction delays or other Enforced Delays in, the construction of any of the very low and/or low income rental inclusionary housing units to be developed in a Phase by such Rental Affordable Housing Developer, or is in default under the terms of the assignment agreement entered into between Developer and such Rental Affordable Housing Developer (the "Assignment") or is otherwise in default with respect to such very low and/or low income rental inclusionary housing units to be developed by such Rental Affordable Housing Developer such that there could be a withholding of building permits and/or certificates of occupancy for market rate housing units in the Project under Attachment No. 3 of the DDA (each a "Triggering Event"), Guarantor shall have the option, exercisable in its sole discretion, to execute and deliver a Completion Guaranty with respect to such very low and/or low income rental inclusionary housing units in such Phase, and, if Guarantor elects to execute and deliver this Phase One Guaranty, the Agency shall waive, without further condition, compliance with the conditions set forth in Attachment No. 3 to the

DDA for the issuance of building permits and certificates of occupancy for market rate units in the Project to the extent such conditions relate to the very low and/or low income rental inclusionary housing units to be developed in Phase One (collectively, the "Phase One Metering Requirements") and the Agency and the County shall continue to issue building permits and certificates of occupancy for the market rate units in the Project without regard to the Phase One Metering Requirements.

D. Guarantor is a related party to Developer and will receive a direct and substantive benefit from consummation of the provisions of the DDA and from the development and construction of the very low and low income rental inclusionary housing units in the Project.

E. Developer has entered into an Inclusionary Housing Agreement (Rental Units) for Phase One dated as of _____, 20__ (the "Phase One Inclusionary Housing Agreement (Rental Units)"), a copy of which agreement is set forth on Exhibit "A" attached hereto. _____, a Rental Affordable Housing Developer (the "Phase One Affordable Builder") has assumed by Assignment the obligations of Developer under the Phase One Inclusionary Housing Agreement (Rental Units), pursuant to which the Phase One Affordable Builder has agreed to construct certain very low and/or low income rental inclusionary housing units in Phase One (the "Phase One Guaranteed Units"). A Triggering Event has occurred because the Phase One Affordable Builder has been unable to secure timely financing and/or has encountered construction delays or other Enforced Delays and/or is in default under the Assignment and/or is in default in completing construction of the Phase One Guaranteed Units.

F. In consideration of the Agency's waiver of compliance with the Phase One Metering Requirements as a condition to the continued issuance by the County and the Agency of building permits and certificates of occupancy for the market rate units, to which the Agency and the County hereby agree as evidenced by their approval of this Phase One Guaranty, Guarantor has elected to execute and deliver this Phase One Guaranty to the Agency. Guarantor acknowledges that Agency would not waive such conditions but for this Phase One Guaranty.

NOW, THEREFORE, in consideration of the foregoing recitals, the terms and conditions set forth below, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty. Guarantor hereby guarantees and agrees, as its separate and sole obligation, that Guarantor shall construct, equip, complete (with such completion to be evidenced by a certificate of occupancy) and pay for the Phase One Guaranteed Units and perform all other obligations of Developer under the Phase One Inclusionary Housing Agreement (Rental Units) (collectively, the "Guaranteed Obligations") by no later than six (6) months after the issuance of a building permit for the 89th market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA; provided, however, that in the event a Triggering Event occurs after the Phase One Affordable Builder has closed on and taken title to the lots on which the Phase One Guaranteed Units are to be built, Guarantor shall have until twelve (12) months after the issuance of a building permit for the 89th

market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA, to satisfy in full the Guaranteed Obligations. As used herein, the term "market rate residential unit" does not include the units in the Town Center, the income-restricted moderate income residential units or the Workforce II Housing units. To the extent Guarantor incurs any costs in performing under this Phase One Guaranty, the amount of any and all such costs shall be deemed Project Costs for purposes of calculating the Developer's Target IRR (as defined in Section A.3.b. of Attachment No. 4 to the DDA).

2. Waivers by Guarantor.

(a) Guarantor waives any right to require the Agency to: (i) proceed first against the Phase One Affordable Builder or Developer; (ii) proceed against or exhaust any security for the obligations of the Phase One Affordable Builder or Developer under the Phase One Inclusionary Housing Agreement (Rental Units) or the obligations of Guarantor hereunder; (iii) give notice of the terms, time and place of any public or private sale of any real or personal property security for any such obligations, or (iv) pursue any other remedy in the Agency's power whatsoever. Guarantor waives any defense arising by reason of any act or omission of the Agency, the County, or others which directly or indirectly results in or aids the discharge or release of the Phase One Affordable Builder or Developer or any indebtedness or obligation or any security therefor by operation of law or otherwise. Guarantor waives all set-offs and counterclaims and all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Phase One Guaranty and of the existence, creation or incurring of new or additional indebtedness or obligations. Guarantor further waives the right to plead any and all statutes of limitation as a defense to any demand under or enforcement of this Phase One Guaranty.

(b) Guarantor further waives any duty on the part of the Agency to disclose to Guarantor any facts the Agency may now have or hereafter acquire concerning the Phase One Affordable Builder or the Developer, regardless of whether the Agency has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of the Phase One Affordable Builder and the Developer and of all circumstances bearing on the obligations of Guarantor under this Phase One Guaranty.

(c) Guarantor waives: (i) any defense based upon any legal disability or other defense of the Phase One Affordable Builder or Developer, any other guarantor or other person, or by reason of the cessation or limitation of the liability of the Phase One Affordable Builder or Developer from any cause other than full payment and performance of the Guaranteed Obligations; (ii) any defense based upon any lack of authority of the officers, directors, partners or agents acting or purporting to act on behalf of the Phase One Affordable Builder or the Developer or any principal of the Phase One Affordable Builder or the Developer or any defect in the formation of the Phase One Affordable Builder or the Developer or any principal of the Phase One Affordable Builder or the Developer; (iii) any and all rights and defenses arising out

of an election of remedies by Agency, even though that election of remedies has destroyed Guarantor's rights of subrogation and reimbursement against the principal; (iv) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal; (v) any defense based upon Agency's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or any successor statute; and (vi) any defense based upon any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code.

(d) Guarantor acknowledges and agrees that the obligations of Guarantor under this Phase One Guaranty to the Agency are separate and independent from any obligations of the Phase One Affordable Builder or the Developer under the Phase One Inclusionary Housing Agreement (Rental Units), and Agency and County acknowledge and agree that this Phase One Guaranty and the obligations of Guarantor hereunder are not intended to be and are not secured by any deed of trust or other security agreement.

3. No Release. Once this Phase One Guaranty has become effective, and until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by the Agency or the County which might have the effect of destroying Guarantor's rights of subrogation against the Phase One Affordable Builder or Developer), or by reason of any waiver, extension, modification, forbearance or delay of the Agency or the County or its failure to proceed promptly or otherwise, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Phase One Guaranty based upon any of the foregoing acts, things, agreements or waivers.

4. Subordination; Subrogation. Guarantor subordinates all present and future indebtedness owing by Developer or Phase One Affordable Builder to Guarantor to the obligations at any time owing by Developer or Phase One Affordable Builder to Agency under the Phase One Inclusionary Housing Agreement (Rental Units) (the "Subordinated Indebtedness"); provided, however, that the Subordinated Indebtedness shall not include any indebtedness or other obligations owing by Developer to Lyon East Garrison Company I, LLC, a California limited liability company and a member of Developer ("Lyon EGP") or preclude any distributions or other payments by Developer to Lyon EGP or by Woodman Development Company LLC, a California limited liability company, to Guarantor or Lyon EGP. Until such time as the Guaranteed Obligations are satisfied in full, Guarantor assigns all such Subordinated Indebtedness to Agency as security for this Phase One Guaranty and Guarantor agrees to make no claim for such Subordinated Indebtedness. Until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not exercise any rights that it might acquire by way of subrogation under this Guaranty or any other rights that it might otherwise have or acquire entitling it at any time to share or participate in any right, remedy or security of the Agency or County as against the Phase One Affordable Builder or against Developer under the Phase One Inclusionary Housing Agreement (Rental Units). Provided that, following the satisfaction in full of the Guaranteed Obligations, if Guarantor shall have made any payments in furtherance of its performance under this Phase One Guaranty, Guarantor shall, to the extent of such payments, be

subrogated to the rights and remedies of the Agency and/or the County under any agreements or other documents containing the Phase One Affordable Builder's or Developer's obligations to construct the Phase One Guaranteed Units, subject to paragraph 2(c)(iii) hereof..

5. Representations and Warranties. Guarantor hereby makes the following representations and warranties to the Agency as of the date of this Phase One Guaranty:

(a) Authorization and Validation. The execution, delivery and performance by Guarantor of this Phase One Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary authorizations and approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any material breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance upon any of its property or assets, except as contemplated by the provisions of this Phase One Guaranty. Guarantor further warrants and acknowledges that: (i) there are no conditions precedent to the effectiveness of this Phase One Guaranty; (ii) the most recent financial statements of Guarantor previously delivered to Agency are true and correct in all material respects, have been prepared in accordance with generally accepted accounting principles consistently applied (or other principles acceptable to Agency) and fairly present the financial condition of Guarantor as of the respective dates thereof, and no material adverse change has occurred in the financial condition of Guarantor since the respective dates thereof which would materially adversely affect the ability of Guarantor to perform its obligations under this Phase One Guaranty or would cause the net worth of Guarantor to fall below \$75,000,000 prior to the satisfaction in full of the Guaranteed Obligations; and (iii) unless and until the Guaranteed Obligations are satisfied in full, Guarantor has not and will not, without the prior written consent of Agency, sell, lease, assign, encumber, transfer or otherwise dispose of all or substantially all of Guarantor's assets (collectively, an "Asset Transfer"), other than in the ordinary course of Guarantor's business, unless after such Asset Transfer, Guarantor has a net worth of not less than \$75,000,000. The foregoing shall not prohibit Guarantor from entering into a merger or consolidation so long as until such time as the Guaranteed Obligations are satisfied in full the surviving corporation has a net worth of at least \$75,000,000 and, in Agency's reasonable judgment, has expertise in the construction of multifamily housing projects in California at least equivalent to that of Guarantor.

(b) No Defaults. Guarantor is not (i) a party to any agreement or instrument that will materially interfere with its performance under this Phase One Guaranty, or (ii) in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

(c) Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Phase One Guaranteed Units. The Phase One Guaranteed Units shall in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all

construction of the Phase One Guaranteed Units shall in all material respects conform with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction therefor.

6. Notices. Any notice, demand or request by the Agency to Guarantor shall be in writing and shall be deemed to have been duly given or made if either delivered personally or if mailed by U.S. registered or certified mail as follows:

c/o WILLIAM LYON HOMES, INC.
4490 Von Karman Avenue
Newport Beach, California 92660
Attn: Richard S. Robinson

7. Termination of Guaranty. Notwithstanding anything to the contrary herein contained, this Phase One Guaranty shall automatically terminate and become null and void upon the satisfaction in full of the Guaranteed Obligations, whether by Guarantor, Developer, the Phase One Affordable Builder, any third party to whom Guarantor sells, leases, assigns, transfers or otherwise disposes of all or substantially all of Guarantor's assets (a "Transferee") or any other person or entity; provided, however, that if all or any part of such performance is avoided or recovered directly or indirectly from the Agency as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Phase One Guaranty shall be reinstated and shall remain in full force and effect.

8. Remedies. If Guarantor fails to perform its obligations when due under this Phase One Guaranty, Agency shall be entitled to all remedies available at law and in equity with respect to such breach. Without limiting the foregoing, Agency shall have the right, from time to time and without first requiring performance by the Phase One Affordable Builder or Developer or exhausting any remedies under the Phase One Inclusionary Housing Agreement (Rental Units), to bring any action at law or in equity or both to compel Guarantor to perform its obligations hereunder, and to collect in any such action reasonable compensation for all actual loss, cost, damage, injury and expense sustained or incurred by Agency as a direct consequence of the failure of Guarantor to perform its obligations; provided that in no circumstances shall Agency be entitled to any consequential, punitive or exemplary damages. All remedies afforded to the Agency by reason of this Phase One Guaranty are separate and cumulative remedies and none of such remedies, whether exercised by the Agency or not, shall be deemed to be in exclusion of any one of the other remedies available to the Agency, and shall not in any way limit or prejudice any other legal or equitable remedy available to the Agency. Without limiting the foregoing, the parties hereto agree that the measure of damages recoverable by Agency by reason of Guarantor's failure to perform the Guaranteed Obligations shall be the cost to construct, equip and complete the Phase One Guaranteed Units to the extent not constructed, equipped and completed by Guarantor, Developer, the Phase One Affordable Builder or any Transferee, it being acknowledged and agreed by the parties that the Agency would suffer irreparable harm if the Phase One Guaranteed Units are not constructed, equipped and completed.

9. Governing Law; Venue. This Phase One Guaranty is and shall be deemed to be a contract entered into and 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. Guarantor hereby consents to venue for purposes of any action brought by the Agency under this Phase One Guaranty in any court located in the County of Monterey, State of California.

10. Binding Effect. This Phase One Guaranty shall inure to the benefit of the Agency and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

11. Severability. Should any one or more of the provisions of this Phase One Guaranty be determined to be illegal, invalid or unenforceable, all other provisions of this Phase One Guaranty shall remain in effect as if the provisions(s) determined to be illegal, invalid or unenforceable did not exist.

12. Attorneys' Fees and Costs. In any action or proceeding arising out of this Phase One Guaranty, including, without limitation, any action for declaratory or injunctive relief or arising out of the termination of this Phase One Guaranty, the prevailing party shall be entitled to recover from the losing party, as determined by the judge or presiding official, reasonable attorneys' fees and costs and expenses of investigation and/or litigation incurred, including, without limitation, those incurred in appellate proceedings or in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11, or 13 of the United States Bankruptcy Code or any successor or similar statutes, and any judgment or decree rendered in any such actions or proceedings shall include an award thereof.

13. No Guarantee Of Phase One Affordable Builder's Performance or DDA. This Phase One Guaranty is a guarantee of completion by the date set forth in Section 1 hereof of the Guaranteed Obligations; it is not a guarantee of performance by the Phase One Affordable Builder of its obligations under any agreement and is not a guarantee of the Developer's obligations under the DDA.

14. Entire Phase One Guaranty; Amendments. Except for the relevant provisions of the Phase One Inclusionary Housing Agreement (Rental Units), this Phase One Guaranty embodies the entire agreement of Guarantor and the Agency with respect to the matters set forth herein, and, together with such provisions of the Phase One Inclusionary Housing Agreement (Rental Units), supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and the Agency with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and the Agency shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Phase One Guaranty may be changed, waived, revoked or amended without the prior written consent of Guarantor and the Agency.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned has executed this Phase One Guaranty as of the date first above written.

WILLIAM LYON HOMES, INC.,
a California corporation

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

APPROVED:

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By: _____
Executive Director

By: _____
Secretary

COUNTY OF MONTEREY

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT "A"

PHASE ONE INCLUSIONARY HOUSING AGREEMENT (RENTAL UNITS)

**FORM OF
COMPLETION GUARANTY
FOR PHASE TWO**

[SUBJECT TO FINAL REVIEW OF THE PARTIES.]

THIS PHASE TWO COMPLETION GUARANTY ("Phase Two Guaranty"), dated as of _____, 200__, is hereby given by **WILLIAM LYON HOMES, INC.**, a California corporation ("Guarantor"), to the **REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY** (the "Agency"), with respect to the following facts:

RECITALS:

A. East Garrison Partners I, LLC, a California limited liability company ("Developer") has entered into that certain Disposition and Development Agreement (Together with Exclusive Negotiation Rights to Certain Property) (the "DDA"), dated _____, 2005, between Developer and the Agency, and approved by the County of Monterey (the "County"). Unless otherwise defined in this Phase Two Guaranty, capitalized terms shall have the same meanings as set forth in the DDA.

B. Section 108 of the DDA and Attachment No. 3 thereto provide for the construction of certain deed-restricted affordable housing units in each of three Phases of the Project. Very low and low income rental inclusionary housing units, which constitute a portion of such deed-restricted affordable housing units, are to be developed and constructed in each Phase by a qualified tax credit entity selected by Developer with the reasonable approval of the Agency (a "Rental Affordable Housing Developer") pursuant to an Inclusionary Housing Agreement (Rental Units) approved by the County, the Agency and Developer and entered into with Developer and assigned to and assumed by the Rental Affordable Housing Developer.

C. The DDA further provides that if, notwithstanding its best efforts, a Rental Affordable Housing Developer does not secure timely financing for, or experiences construction delays or other Enforced Delays in, the construction of any of the very low and/or low income rental inclusionary housing units to be developed in a Phase by such Rental Affordable Housing Developer, or is in default under the terms of the assignment agreement entered into between Developer and such Rental Affordable Housing Developer (the "Assignment") or is otherwise in default with respect to such very low and/or low income rental inclusionary housing units to be developed by such Rental Affordable Housing Developer such that there could be a withholding of building permits and/or certificates of occupancy for market rate housing units in the Project under Attachment No. 3 of the DDA (each a "Triggering Event"), Guarantor shall have the option, exercisable in its sole discretion, to execute and deliver a Completion Guaranty with respect to such very low and/or low income rental inclusionary housing units in such Phase, and, if Guarantor elects to execute and deliver this Phase Two Guaranty, the Agency shall waive, without further condition, compliance with the conditions set forth in Attachment No. 3 to the DDA for the issuance of building permits and certificates of occupancy for market rate units in the Project to the extent such conditions relate to the very low and/or low income rental

inclusionary housing units to be developed in Phase Two (collectively, the "Phase Two Metering Requirements") and the Agency and the County shall continue to issue building permits and certificates of occupancy for the market rate units in the Project without regard to the Phase Two Metering Requirements.

D. Guarantor is a related party to Developer and will receive a direct and substantive benefit from consummation of the provisions of the DDA and from the development and construction of the very low and low income rental inclusionary housing units in the Project.

E. Developer has entered into an Inclusionary Housing Agreement (Rental Units) for Phase Two dated as of _____, 20__ (the "Phase Two Inclusionary Housing Agreement (Rental Units)"), a copy of which agreement is set forth on Exhibit "A" attached hereto.

_____, a Rental Affordable Housing Developer (the "Phase Two Affordable Builder") has assumed by Assignment the obligations of Developer under the Phase Two Inclusionary Housing Agreement (Rental Units), pursuant to which the Phase Two Affordable Builder has agreed to construct certain very low and/or low income rental inclusionary housing units in Phase Two (the "Phase Two Guaranteed Units"). A Triggering Event has occurred because the Phase Two Affordable Builder has been unable to secure timely financing and/or has encountered construction delays or other Enforced Delays and/or is in default under the Assignment and/or is in default in completing construction of the Phase Two Guaranteed Units.

F. In consideration of the Agency's waiver of compliance with the Phase Two Metering Requirements as a condition to the continued issuance by the County and the Agency of building permits and certificates of occupancy for the market rate units, to which the Agency and the County hereby agree as evidenced by their approval of this Phase Two Guaranty, Guarantor has elected to execute and deliver this Phase Two Guaranty to the Agency. Guarantor acknowledges that Agency would not waive such conditions but for this Phase Two Guaranty.

NOW, THEREFORE, in consideration of the foregoing recitals, the terms and conditions set forth below, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty. Guarantor hereby guarantees and agrees, as its separate and sole obligation, that Guarantor shall construct, equip, complete (with such completion to be evidenced by a certificate of occupancy) and pay for the Phase Two Guaranteed Units and perform all other obligations of Developer under the Phase Two Inclusionary Housing Agreement (Rental Units) (collectively, the "Guaranteed Obligations") by no later than six (6) months after the issuance of a building permit for the 191st market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA; provided, however, that in the event a Triggering Event occurs after the Phase Two Affordable Builder has closed on and taken title to the lots on which the Phase Two Guaranteed Units are to be built, Guarantor shall have until twelve (12) months after the issuance of a building permit for the 191st market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA, to satisfy in full the Guaranteed Obligations. As used herein, the term "market rate residential unit" does not include the units in the Town Center, the income-restricted moderate income residential units or the Workforce II Housing units. To the extent

Guarantor incurs any costs in performing under this Phase Two Guaranty, the amount of any and all such costs shall be deemed Project Costs for purposes of calculating the Developer's Target IRR (as defined in Section A.3.b. of Attachment No. 4 to the DDA).

2. Waivers by Guarantor.

(a) Guarantor waives any right to require the Agency to: (i) proceed first against the Phase Two Affordable Builder or Developer; (ii) proceed against or exhaust any security for the obligations of the Phase Two Affordable Builder or Developer under the Phase Two Inclusionary Housing Agreement (Rental Units) or the obligations of Guarantor hereunder; (iii) give notice of the terms, time and place of any public or private sale of any real or personal property security for any such obligations, or (iv) pursue any other remedy in the Agency's power whatsoever. Guarantor waives any defense arising by reason of any act or omission of the Agency, the County, or others which directly or indirectly results in or aids the discharge or release of the Phase Two Affordable Builder or Developer or any indebtedness or obligation or any security therefor by operation of law or otherwise. Guarantor waives all set-offs and counterclaims and all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Phase Two Guaranty and of the existence, creation or incurring of new or additional indebtedness or obligations. Guarantor further waives the right to plead any and all statutes of limitation as a defense to any demand under or enforcement of this Phase Two Guaranty.

(b) Guarantor further waives any duty on the part of the Agency to disclose to Guarantor any facts the Agency may now have or hereafter acquire concerning the Phase Two Affordable Builder or the Developer, regardless of whether the Agency has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of the Phase Two Affordable Builder and the Developer and of all circumstances bearing on the obligations of Guarantor under this Phase Two Guaranty.

(c) Guarantor waives: (i) any defense based upon any legal disability or other defense of the Phase Two Affordable Builder or Developer, any other guarantor or other person, or by reason of the cessation or limitation of the liability of the Phase Two Affordable Builder or Developer from any cause other than full payment and performance of the Guaranteed Obligations; (ii) any defense based upon any lack of authority of the officers, directors, partners or agents acting or purporting to act on behalf of the Phase Two Affordable Builder or the Developer or any principal of the Phase Two Affordable Builder or the Developer or any defect in the formation of the Phase Two Affordable Builder or the Developer or any principal of the Phase Two Affordable Builder or the Developer; (iii) any and all rights and defenses arising out of an election of remedies by Agency, even though that election of remedies has destroyed Guarantor's rights of subrogation and reimbursement against the principal; (iv) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal; (v) any defense based upon Agency's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or

any successor statute; and (vi) any defense based upon any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code.

(d) Guarantor acknowledges and agrees that the obligations of Guarantor under this Phase Two Guaranty to the Agency are separate and independent from any obligations of the Phase Two Affordable Builder or the Developer under the Phase Two Inclusionary Housing Agreement (Rental Units), and Agency and County acknowledge and agree that this Phase Two Guaranty and the obligations of Guarantor hereunder are not intended to be and are not secured by any deed of trust or other security agreement.

3. No Release. Once this Phase Two Guaranty has become effective, and until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by the Agency or the County which might have the effect of destroying Guarantor's rights of subrogation against the Phase Two Affordable Builder or Developer), or by reason of any waiver, extension, modification, forbearance or delay of the Agency or the County or its failure to proceed promptly or otherwise, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Phase Two Guaranty based upon any of the foregoing acts, things, agreements or waivers.

4. Subordination; Subrogation. Guarantor subordinates all present and future indebtedness owing by Developer or Phase Two Affordable Builder to Guarantor to the obligations at any time owing by Developer or Phase Two Affordable Builder to Agency under the Phase Two Inclusionary Housing Agreement (Rental Units) (the "Subordinated Indebtedness"); provided, however, that the Subordinated Indebtedness shall not include any indebtedness or other obligations owing by Developer to Lyon East Garrison Company I, LLC, a California limited liability company and a member of Developer ("Lyon EGP") or preclude any distributions or other payments by Developer to Lyon EGP or by Woodman Development Company LLC, a California limited liability company, to Guarantor or Lyon EGP. Until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not exercise any rights that it might acquire by way of subrogation under this Guaranty or any other rights that it might otherwise have or acquire entitling it at any time to share or participate in any right, remedy or security of the Agency or County as against the Phase Two Affordable Builder or against Developer under the Phase Two Inclusionary Housing Agreement (Rental Units). Provided that, following the satisfaction in full of the Guaranteed Obligations, if Guarantor shall have made any payments in furtherance of its performance under this Phase Two Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of the Agency and/or the County under any agreements or other documents containing the Phase Two Affordable Builder's or Developer's obligations to construct the Phase Two Guaranteed Units, subject to paragraph 2(c)(iii) hereof.

5. Representations and Warranties. Guarantor hereby makes the following representations and warranties to the Agency as of the date of this Phase Two Guaranty:

(a) Authorization and Validation. The execution, delivery and performance by Guarantor of this Phase Two Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary authorizations and approvals on behalf of Guarantor, (iii) has received all necessary

governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any material breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance upon any of its property or assets, except as contemplated by the provisions of this Phase Two Guaranty. Guarantor further warrants and acknowledges that: (i) there are no conditions precedent to the effectiveness of this Phase Two Guaranty; (ii) the most recent financial statements of Guarantor previously delivered to Agency are true and correct in all material respects, have been prepared in accordance with generally accepted accounting principles consistently applied (or other principles acceptable to Agency) and fairly present the financial condition of Guarantor as of the respective dates thereof, and no material adverse change has occurred in the financial condition of Guarantor since the respective dates thereof which would materially adversely affect the ability of Guarantor to perform its obligations under this Phase Two Guaranty or would cause the net worth of Guarantor to fall below \$50,000,000 (indexed to the ENR Cost Index) prior to the satisfaction in full of the Guaranteed Obligations; and (iii) unless and until the Guaranteed Obligations are satisfied in full, Guarantor has not and will not, without the prior written consent of Agency, sell, lease, assign, encumber, transfer or otherwise dispose of all or substantially all of Guarantor's assets (collectively, an "Asset Transfer"), other than in the ordinary course of Guarantor's business, unless after such Asset Transfer, Guarantor has a net worth of not less than \$50,000,000 (indexed to the ENR Cost Index). The foregoing shall not prohibit Guarantor from entering into a merger or consolidation so long as until such time as the Guaranteed Obligations are satisfied in full the surviving corporation has a net worth of at least \$50,000,000 (indexed to the ENR Cost Index) and, in Agency's reasonable judgment, has expertise in the construction of multifamily housing projects in California at least equivalent to that of Guarantor.

(b) No Defaults. Guarantor is not (i) a party to any agreement or instrument that will materially interfere with its performance under this Phase Two Guaranty, or (ii) in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

(c) Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Phase Two Guaranteed Units. The Phase Two Guaranteed Units shall in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction of the Phase Two Guaranteed Units shall in all material respects conform with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction therefor.

6. Notices. Any notice, demand or request by the Agency to Guarantor shall be in writing and shall be deemed to have been duly given or made if either delivered personally or if mailed by U.S. registered or certified mail as follows:

c/o WILLIAM LYON HOMES, INC.
4490 Von Karman Avenue

Newport Beach, California 92660
Attn: Richard S. Robinson

7. Termination of Guaranty. Notwithstanding anything to the contrary herein contained, this Phase Two Guaranty shall automatically terminate and become null and void upon the satisfaction in full of the Guaranteed Obligations, whether by Guarantor, Developer, the Phase Two Affordable Builder, any third party to whom Guarantor sells, leases, assigns, transfers or otherwise disposes of all or substantially all of Guarantor's assets (a "Transferee") or any other person or entity; provided, however, that if all or any part of such performance is avoided or recovered directly or indirectly from the Agency as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Phase Two Guaranty shall be reinstated and shall remain in full force and effect.

8. Remedies. If Guarantor fails to perform its obligations when due under this Phase Two Guaranty, Agency shall be entitled to all remedies available at law and in equity with respect to such breach. Without limiting the foregoing, Agency shall have the right, from time to time and without first requiring performance by the Phase Two Affordable Builder or Developer or exhausting any remedies under the Phase Two Inclusionary Housing Agreement (Rental Units), to bring any action at law or in equity or both to compel Guarantor to perform its obligations hereunder, and to collect in any such action reasonable compensation for all actual loss, cost, damage, injury and expense sustained or incurred by Agency as a direct consequence of the failure of Guarantor to perform its obligations; provided that in no circumstances shall Agency be entitled to any consequential, punitive or exemplary damages. All remedies afforded to the Agency by reason of this Phase Two Guaranty are separate and cumulative remedies and none of such remedies, whether exercised by the Agency or not, shall be deemed to be in exclusion of any one of the other remedies available to the Agency, and shall not in any way limit or prejudice any other legal or equitable remedy available to the Agency. Without limiting the foregoing, the parties hereto agree that the measure of damages recoverable by Agency by reason of Guarantor's failure to perform the Guaranteed Obligations shall be the cost to construct, equip and complete the Phase Two Guaranteed Units to the extent not constructed, equipped and completed by Guarantor, Developer, the Phase Two Affordable Builder or any Transferee, it being acknowledged and agreed by the parties that the Agency would suffer irreparable harm if the Phase Two Guaranteed Units are not constructed, equipped and completed.

9. Governing Law; Venue. This Phase Two Guaranty is and shall be deemed to be a contract entered into and 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. Guarantor hereby consents to venue for purposes of any action brought by the Agency under this Phase Two Guaranty in any court located in the County of Monterey, State of California.

10. Binding Effect. This Phase Two Guaranty shall inure to the benefit of the Agency and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

11. Severability. Should any one or more of the provisions of this Phase Two Guaranty be determined to be illegal, invalid or unenforceable, all other provisions of this Phase

Two Guaranty shall remain in effect as if the provisions(s) determined to be illegal, invalid or unenforceable did not exist.

12. Attorneys' Fees and Costs. In any action or proceeding arising out of this Phase Two Guaranty, including, without limitation, any action for declaratory or injunctive relief or arising out of the termination of this Phase Two Guaranty, the prevailing party shall be entitled to recover from the losing party, as determined by the judge or presiding official, reasonable attorneys' fees and costs and expenses of investigation and/or litigation incurred, including, without limitation, those incurred in appellate proceedings or in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11, or 13 of the United States Bankruptcy Code or any successor or similar statutes, and any judgment or decree rendered in any such actions or proceedings shall include an award thereof.

13. No Guarantee Of Phase Two Affordable Builder's Performance or DDA. This Phase Two Guaranty is a guarantee of completion by the date set forth in Section 1 hereof of the Guaranteed Obligations; it is not a guarantee of performance by the Phase Two Affordable Builder of its obligations under any agreement and is not a guarantee of the Developer's obligations under the DDA.

14. Entire Phase Two Guaranty; Amendments. Except for the relevant provisions of the Phase Two Inclusionary Housing Agreement (Rental Units), this Phase Two Guaranty embodies the entire agreement of Guarantor and the Agency with respect to the matters set forth herein, and, together with such provisions of the Phase Two Inclusionary Housing Agreement (Rental Units), supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and the Agency with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and the Agency shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Phase Two Guaranty may be changed, waived, revoked or amended without the prior written consent of Guarantor and the Agency.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned has executed this Phase Two Guaranty as of the date first above written.

WILLIAM LYON HOMES, INC.,
a California corporation

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

APPROVED:

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By: _____
Executive Director

By: _____
Secretary

COUNTY OF MONTEREY

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT "A"
PHASE TWO INCLUSIONARY HOUSING AGREEMENT (RENTAL UNITS)

**FORM OF
COMPLETION GUARANTY
FOR PHASE THREE**

[SUBJECT TO FINAL REVIEW OF THE PARTIES.]

**FORM OF
COMPLETION GUARANTY
FOR PHASE THREE**

[SUBJECT TO FINAL REVIEW OF THE PARTIES.]

THIS PHASE THREE COMPLETION GUARANTY ("Phase Three Guaranty"), dated as of _____, 200__, is hereby given by **WILLIAM LYON HOMES, INC.**, a California corporation ("Guarantor"), to the **REDEVELOPMENT AGENCY OF THE COUNTY OF MONTEREY** (the "Agency"), with respect to the following facts:

RECITALS:

A. East Garrison Partners I, LLC, a California limited liability company ("Developer") has entered into that certain Disposition and Development Agreement (Together with Exclusive Negotiation Rights to Certain Property) (the "DDA"), dated _____, 2005, between Developer and the Agency, and approved by the County of Monterey (the "County"). Unless otherwise defined in this Phase Three Guaranty, capitalized terms shall have the same meanings as set forth in the DDA.

B. Section 108 of the DDA and Attachment No. 3 thereto provide for the construction of certain deed-restricted affordable housing units in each of three Phases of the Project. Very low and low income rental inclusionary housing units, which constitute a portion of such deed-restricted affordable housing units, are to be developed and constructed in each Phase by a qualified tax credit entity selected by Developer with the reasonable approval of the Agency (a "Rental Affordable Housing Developer") pursuant to an Inclusionary Housing Agreement (Rental Units) approved by the County, the Agency and Developer and entered into with Developer and assigned to and assumed by the Rental Affordable Housing Developer.

C. The DDA further provides that if, notwithstanding its best efforts, a Rental Affordable Housing Developer does not secure timely financing for, or experiences construction delays or other Enforced Delays in, the construction of any of the very low and/or low income rental inclusionary housing units to be developed in a Phase by such Rental Affordable Housing Developer, or is in default under the terms of the assignment agreement entered into between Developer and such Rental Affordable Housing Developer (the "Assignment") or is otherwise in default with respect to such very low and/or low income rental inclusionary housing units to be developed by such Rental Affordable Housing Developer such that there could be a withholding

of building permits and/or certificates of occupancy for market rate housing units in the Project under Attachment No. 3 of the DDA (each a "Triggering Event"), Guarantor shall have the option, exercisable in its sole discretion, to execute and deliver a Completion Guaranty with respect to such very low and/or low income rental inclusionary housing units in such Phase, and, if Guarantor elects to execute and deliver this Phase Three Guaranty, the Agency shall waive, without further condition, compliance with the conditions set forth in Attachment No. 3 to the DDA for the issuance of building permits and certificates of occupancy for market rate units in the Project to the extent such conditions relate to the very low and/or low income rental inclusionary housing units to be developed in Phase Three (collectively, the "Phase Three Metering Requirements") and the Agency and the County shall continue to issue building permits and certificates of occupancy for the market rate units in the Project without regard to the Phase Three Metering Requirements.

D. Guarantor is a related party to Developer and will receive a direct and substantive benefit from consummation of the provisions of the DDA and from the development and construction of the very low and low income rental inclusionary housing units in the Project.

E. Developer has entered into an Inclusionary Housing Agreement (Rental Units) for Phase Three dated as of _____, 20__ (the "Phase Three Inclusionary Housing Agreement (Rental Units)"), a copy of which agreement is set forth on Exhibit "A" attached hereto.

_____, a Rental Affordable Housing Developer (the "Phase Three Affordable Builder") has assumed by Assignment the obligations of Developer under the Phase Three Inclusionary Housing Agreement (Rental Units), pursuant to which the Phase Three Affordable Builder has agreed to construct certain very low and/or low income rental inclusionary housing units in Phase Three (the "Phase Three Guaranteed Units"). A Triggering Event has occurred because the Phase Three Affordable Builder has been unable to secure timely financing and/or has encountered construction delays or other Enforced Delays and/or is in default under the Assignment and/or is in default in completing construction of the Phase Three Guaranteed Units.

F. In consideration of the Agency's waiver of compliance with the Phase Three Metering Requirements as a condition to the continued issuance by the County and the Agency of building permits and certificates of occupancy for the market rate units, to which the Agency and the County hereby agree as evidenced by their approval of this Phase Three Guaranty, Guarantor has elected to execute and deliver this Phase Three Guaranty to the Agency. Guarantor acknowledges that Agency would not waive such conditions but for this Phase Three Guaranty.

NOW, THEREFORE, in consideration of the foregoing recitals, the terms and conditions set forth below, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty. Guarantor hereby guarantees and agrees, as its separate and sole obligation, that Guarantor shall construct, equip, complete (with such completion to be evidenced by a certificate of occupancy) and pay for the Phase Three Guaranteed Units and perform all other obligations of Developer under the Phase Three Inclusionary Housing Agreement (Rental Units) (collectively, the "Guaranteed Obligations") by no later than six (6)

months after the issuance of a certificate of occupancy for the 192nd market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA; provided, however, that in the event a Triggering Event occurs after the Phase Three Affordable Builder has closed on and taken title to the lots on which the Phase Three Guaranteed Units are to be built, Guarantor shall have until twelve (12) months after the issuance of a certificate of occupancy for the 192nd market rate residential unit in Phase Three, subject to extension for Enforced Delays as defined in Section 604 of the DDA, to satisfy in full the Guaranteed Obligations. As used herein, the term "market rate residential unit" does not include the units in the Town Center, the income-restricted moderate income residential units or the Workforce II Housing units. To the extent Guarantor incurs any costs in performing under this Phase Three Guaranty, the amount of any and all such costs shall be deemed Project Costs for purposes of calculating the Developer's Target IRR (as defined in Section A.3.b. of Attachment No. 4 to the DDA).

2. Waivers by Guarantor.

(a) Guarantor waives any right to require the Agency to: (i) proceed first against the Phase Three Affordable Builder or Developer; (ii) proceed against or exhaust any security for the obligations of the Phase Three Affordable Builder or Developer under the Phase Three Inclusionary Housing Agreement (Rental Units) or the obligations of Guarantor hereunder; (iii) give notice of the terms, time and place of any public or private sale of any real or personal property security for any such obligations, or (iv) pursue any other remedy in the Agency's power whatsoever. Guarantor waives any defense arising by reason of any act or omission of the Agency, the County, or others which directly or indirectly results in or aids the discharge or release of the Phase Three Affordable Builder or Developer or any indebtedness or obligation or any security therefor by operation of law or otherwise. Guarantor waives all set-offs and counterclaims and all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Phase Three Guaranty and of the existence, creation or incurring of new or additional indebtedness or obligations. Guarantor further waives the right to plead any and all statutes of limitation as a defense to any demand under or enforcement of this Phase Three Guaranty.

(b) Guarantor further waives any duty on the part of the Agency to disclose to Guarantor any facts the Agency may now have or hereafter acquire concerning the Phase Three Affordable Builder or the Developer, regardless of whether the Agency has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of the Phase Three Affordable Builder and the Developer and of all circumstances bearing on the obligations of Guarantor under this Phase Three Guaranty.

(c) Guarantor waives: (i) any defense based upon any legal disability or other defense of the Phase Three Affordable Builder or Developer, any other guarantor or other person, or by reason of the cessation or limitation of the liability of the Phase Three Affordable Builder or Developer from any cause other than full payment and performance of the Guaranteed Obligations; (ii) any defense based upon any lack of authority of the officers, directors, partners

or agents acting or purporting to act on behalf of the Phase Three Affordable Builder or the Developer or any principal of the Phase Three Affordable Builder or the Developer or any defect in the formation of the Phase Three Affordable Builder or the Developer or any principal of the Phase Three Affordable Builder or the Developer; (iii) any and all rights and defenses arising out of an election of remedies by Agency, even though that election of remedies has destroyed Guarantor's rights of subrogation and reimbursement against the principal; (iv) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal; (v) any defense based upon Agency's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or any successor statute; and (vi) any defense based upon any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code.

(d) Guarantor acknowledges and agrees that the obligations of Guarantor under this Phase Three Guaranty to the Agency are separate and independent from any obligations of the Phase Three Affordable Builder or the Developer under the Phase Three Inclusionary Housing Agreement (Rental Units), and Agency and County acknowledge and agree that this Phase Three Guaranty and the obligations of Guarantor hereunder are not intended to be and are not secured by any deed of trust or other security agreement.

3. No Release. Once this Phase Three Guaranty has become effective, and until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by the Agency or the County which might have the effect of destroying Guarantor's rights of subrogation against the Phase Three Affordable Builder or Developer), or by reason of any waiver, extension, modification, forbearance or delay of the Agency or the County or its failure to proceed promptly or otherwise, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Phase Three Guaranty based upon any of the foregoing acts, things, agreements or waivers.

4. Subordination; Subrogation. Guarantor subordinates all present and future indebtedness owing by Developer or Phase Three Affordable Builder to Guarantor to the obligations at any time owing by Developer or Phase Three Affordable Builder to Agency under the Phase Three Inclusionary Housing Agreement (Rental Units) (the "Subordinated Indebtedness"); provided, however, that the Subordinated Indebtedness shall not include any indebtedness or other obligations owing by Developer to Lyon East Garrison Company I, LLC, a California limited liability company and a member of Developer ("Lyon EGP") or preclude any distributions or other payments by Developer to Lyon EGP or by Woodman Development Company LLC, a California limited liability company, to Guarantor or Lyon EGP. Until such time as the Guaranteed Obligations are satisfied in full, Guarantor shall not exercise any rights that it might acquire by way of subrogation under this Guaranty or any other rights that it might otherwise have or acquire entitling it at any time to share or participate in any right, remedy or security of the Agency or County as against the Phase Three Affordable Builder or against Developer under the Phase Three Inclusionary Housing Agreement (Rental Units). Provided that, following the satisfaction in full of the Guaranteed Obligations, if Guarantor shall have made any payments in furtherance of its performance under this Phase Three Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of the

Agency and/or the County under any agreements or other documents containing the Phase Three Affordable Builder's or Developer's obligations to construct the Phase Three Guaranteed Units, subject to paragraph 2(c)(iii) hereof.

5. Representations and Warranties. Guarantor hereby makes the following representations and warranties to the Agency as of the date of this Phase Three Guaranty:

(a) Authorization and Validation. The execution, delivery and performance by Guarantor of this Phase Three Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary authorizations and approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any material breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance upon any of its property or assets, except as contemplated by the provisions of this Phase Three Guaranty. Guarantor further warrants and acknowledges that: (i) there are no conditions precedent to the effectiveness of this Phase Three Guaranty; (ii) the most recent financial statements of Guarantor previously delivered to Agency are true and correct in all material respects, have been prepared in accordance with generally accepted accounting principles consistently applied (or other principles acceptable to Agency) and fairly present the financial condition of Guarantor as of the respective dates thereof, and no material adverse change has occurred in the financial condition of Guarantor since the respective dates thereof which would materially adversely affect the ability of Guarantor to perform its obligations under this Phase Three Guaranty or would cause the net worth of Guarantor to fall below \$25,000,000 (indexed to the ENR Cost Index) prior to the satisfaction in full of the Guaranteed Obligations; and (iii) unless and until the Guaranteed Obligations are satisfied in full, Guarantor has not and will not, without the prior written consent of Agency, sell, lease, assign, encumber, transfer or otherwise dispose of all or substantially all of Guarantor's assets (collectively, an "Asset Transfer"), other than in the ordinary course of Guarantor's business, unless after such Asset Transfer, Guarantor has a net worth of not less than \$25,000,000 (indexed to the ENR Cost Index). The foregoing shall not prohibit Guarantor from entering into a merger or consolidation so long as until such time as the Guaranteed Obligations are satisfied in full the surviving corporation has a net worth of at least \$25,000,000 (indexed to the ENR Cost Index) and, in Agency's reasonable judgment, has expertise in the construction of multifamily housing projects in California at least equivalent to that of Guarantor.

(b) No Defaults. Guarantor is not (i) a party to any agreement or instrument that will materially interfere with its performance under this Phase Three Guaranty, or (ii) in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

(c) Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Phase Three Guaranteed Units. The Phase Three Guaranteed Units shall in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction of the Phase Three Guaranteed Units shall in all material respects conform with

applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction therefor.

6. Notices. Any notice, demand or request by the Agency to Guarantor shall be in writing and shall be deemed to have been duly given or made if either delivered personally or if mailed by U.S. registered or certified mail as follows:

c/o WILLIAM LYON HOMES, INC.
4490 Von Karman Avenue
Newport Beach, California 92660
Attn: Richard S. Robinson

7. Termination of Guaranty. Notwithstanding anything to the contrary herein contained, this Phase Three Guaranty shall automatically terminate and become null and void upon the satisfaction in full of the Guaranteed Obligations, whether by Guarantor, Developer, the Phase Three Affordable Builder, any third party to whom Guarantor sells, leases, assigns, transfers or otherwise disposes of all or substantially all of Guarantor's assets (a "Transferee") or any other person or entity; provided, however, that if all or any part of such performance is avoided or recovered directly or indirectly from the Agency as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Phase Three Guaranty shall be reinstated and shall remain in full force and effect.

8. Remedies. If Guarantor fails to perform its obligations when due under this Phase Three Guaranty, Agency shall be entitled to all remedies available at law and in equity with respect to such breach. Without limiting the foregoing, Agency shall have the right, from time to time and without first requiring performance by the Phase Three Affordable Builder or Developer or exhausting any remedies under the Phase Three Inclusionary Housing Agreement (Rental Units), to bring any action at law or in equity or both to compel Guarantor to perform its obligations hereunder, and to collect in any such action reasonable compensation for all actual loss, cost, damage, injury and expense sustained or incurred by Agency as a direct consequence of the failure of Guarantor to perform its obligations; provided that in no circumstances shall Agency be entitled to any consequential, punitive or exemplary damages. All remedies afforded to the Agency by reason of this Phase Three Guaranty are separate and cumulative remedies and none of such remedies, whether exercised by the Agency or not, shall be deemed to be in exclusion of any one of the other remedies available to the Agency, and shall not in any way limit or prejudice any other legal or equitable remedy available to the Agency. Without limiting the foregoing, the parties hereto agree that the measure of damages recoverable by Agency by reason of Guarantor's failure to perform the Guaranteed Obligations shall be the cost to construct, equip and complete the Phase Three Guaranteed Units to the extent not constructed, equipped and completed by Guarantor, Developer, the Phase Three Affordable Builder or any Transferee, it being acknowledged and agreed by the parties that the Agency would suffer irreparable harm if the Phase Three Guaranteed Units are not constructed, equipped and completed.

9. Governing Law; Venue. This Phase Three Guaranty is and shall be deemed to be a contract entered into and 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. Guarantor hereby consents to venue for purposes of any action brought by the Agency under this Phase Three Guaranty in any court located in the County of Monterey, State of California.

10. Binding Effect. This Phase Three Guaranty shall inure to the benefit of the Agency and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

11. Severability. Should any one or more of the provisions of this Phase Three Guaranty be determined to be illegal, invalid or unenforceable, all other provisions of this Phase Three Guaranty shall remain in effect as if the provisions(s) determined to be illegal, invalid or unenforceable did not exist.

12. Attorneys' Fees and Costs. In any action or proceeding arising out of this Phase Three Guaranty, including, without limitation, any action for declaratory or injunctive relief or arising out of the termination of this Phase Three Guaranty, the prevailing party shall be entitled to recover from the losing party, as determined by the judge or presiding official, reasonable attorneys' fees and costs and expenses of investigation and/or litigation incurred, including, without limitation, those incurred in appellate proceedings or in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11, or 13 of the United States Bankruptcy Code or any successor or similar statutes, and any judgment or decree rendered in any such actions or proceedings shall include an award thereof.

13. No Guarantee Of Phase Three Affordable Builder's Performance or DDA. This Phase Three Guaranty is a guarantee of completion by the date set forth in Section 1 hereof of the Guaranteed Obligations; it is not a guarantee of performance by the Phase Three Affordable Builder of its obligations under any agreement and is not a guarantee of the Developer's obligations under the DDA.

14. Entire Phase Three Guaranty; Amendments. Except for the relevant provisions of the Phase Three Inclusionary Housing Agreement (Rental Units), this Phase Three Guaranty embodies the entire agreement of Guarantor and the Agency with respect to the matters set forth herein, and, together with such provisions of the Phase Three Inclusionary Housing Agreement (Rental Units), supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and the Agency with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and the Agency shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Phase Three Guaranty may be changed, waived, revoked or amended without the prior written consent of Guarantor and the Agency.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned has executed this Phase Three Guaranty as of the date first above written.

WILLIAM LYON HOMES, INC.,
a California corporation

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

APPROVED:

REDEVELOPMENT AGENCY OF THE
COUNTY OF MONTEREY

By: _____
Executive Director

By: _____
Secretary

COUNTY OF MONTEREY

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT "A"

PHASE THREE INCLUSIONARY HOUSING AGREEMENT (RENTAL UNITS)