FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1996-11-14**
SEC Accession No. 0000950144-96-008127

FILER

MEGO MORTGAGE CORP

CIK:**1023334**| IRS No.: **880286042** | State of Incorp.:**DE** | Fiscal Year End: **0831**
Type: **S-1/A** | Act: **33** | File No.: **333-13421** | Film No.: **96663134**
SIC: **6159** Miscellaneous business credit institution

Mailing Address
4310 PARADISE RD
LAS VEGAS NV 89109

Business Address
1000 PARKWOOD CIRCLE
SUITE 500
ATLANTA GA 30339
7027373700

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 14, 1996

REGISTRATION NO. 333-13421

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MEGO MORTGAGE CORPORATION
(Name of Registrant as Specified in its Charter)

<TABLE>
<S> <C> <C>

DELAWARE	6162	88-0286042
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

</TABLE>

1000 PARKWOOD CIRCLE, SUITE 500
ATLANTA, GEORGIA 30339
(770) 952-6700

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

JAMES L. BELTER
EXECUTIVE VICE PRESIDENT
MEGO MORTGAGE CORPORATION
1000 PARKWOOD CIRCLE, SUITE 500
ATLANTA, GEORGIA 30339
(770) 952-6700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPY OF COMMUNICATIONS TO:

<TABLE>
<S> <C>

GARY EPSTEIN, ESQ. FERN S. WATTS, ESQ. GREENBERG, TRAURIG, HOFFMAN, LIPOFF, ROSEN & QUENTEL, P.A. 1221 BRICKELL AVENUE MIAMI, FLORIDA 33131 (305) 579-0500 (FACSIMILE) (305) 579-0717	STEVEN R. FINLEY, ESQ. GIBSON, DUNN & CRUTCHER LLP 200 PARK AVENUE NEW YORK, NEW YORK 10166 (212) 351-4000 (FACSIMILE) (212) 351-4035

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement

for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED NOVEMBER 14, 1996

PROSPECTUS

$40,000,000

MEGO MORTGAGE CORPORATION [LOGO]

% SENIOR SUBORDINATED NOTES DUE 2001

Mego Mortgage Corporation (the "Company") is offering hereby (the "Offering") $40.0 million principal amount of its % Senior Subordinated Notes due 2001 (the "Notes"). Interest on the Notes will be payable semiannually on and of each year, commencing , 1997. The Notes are not redeemable at any time prior to , , except that, until , 1998, the Company may redeem, at its option, up to 35% of the original principal of the Notes at the redemption price set forth herein plus accrued interest to the date of redemption with the net proceeds of one or more Public Equity Offerings (as defined herein), if at least 65% of the original principal amount of the Notes remain outstanding after such redemption. On or after , , the Notes are redeemable at the option of the Company in whole or in part, at the redemption prices set forth herein plus accrued interest to the date of redemption. Upon the occurrence of a Change of Control (as defined herein), holders of the Notes will have the right to require the Company to repurchase their Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date. The Notes will be general unsecured obligations of the Company, subordinated in right of payment to all Senior Indebtedness (as defined herein) of the Company. In addition, the obligations of the Company under the Notes will be jointly and severally guaranteed (Subsidiary Guarantees, as defined herein) on an unsecured, subordinated basis by each of the Company's future Restricted Subsidiaries, other than Special Purpose Subsidiaries (each as defined herein). The Subsidiary Guarantees will be subordinated in right of payment to all Senior Indebtedness of the Subsidiary Guarantors. As of August 31, 1996, after giving pro forma effect to the offering of the Notes and the Common Stock Offering (as defined herein) and the application of the net proceeds therefrom, the outstanding Senior Indebtedness of the Company, on a consolidated basis, would have been approximately $932,000. There is no established trading market for the Notes and the Company does not intend to apply for a listing of the Notes on any national securities exchange. See "Description of the Notes."

Concurrent with the Offering by the Company, the Company is offering 2,000,000 shares of common stock, par value $0.01 per share (the "Common Stock"), of the Company (the "Common Stock Offering"). The sale of the Notes being offered hereby is contingent upon the completion of the Common Stock Offering.

THE NOTES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 9 HEREOF FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED CAREFULLY BY PROSPECTIVE PURCHASERS OF THE NOTES OFFERED HEREBY.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, ANY OTHER GOVERNMENTAL AGENCY OR OTHERWISE.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

<TABLE>
<CAPTION>

	PRICE TO PUBLIC(1)	UNDERWRITING DISCOUNT(2)	PROCEEDS TO COMPANY(3)
<S>	<C>	<C>	<C>
Per Note	%	%	%
Total	$	$	$

</TABLE>

(1) Plus accrued interest, if any, from the date of issuance.
(2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
(3) Before deducting expenses payable by the Company estimated at $375,000.

The Notes are offered by the Underwriters, subject to receipt and acceptance by the Underwriters, approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offers and to reject orders in whole or in part. It is expected that delivery of the Notes will be made through the facilities of The Depository Trust Company on or about , 1996.

FRIEDMAN, BILLINGS, RAMSEY & CO., INC. OPPENHEIMER & CO., INC.

The date of this Prospectus is , 1996

MEGO MORTGAGE CORPORATION
MAP

MAP OF THE CONTINENTAL UNITED STATES SHOWING TOP SIX STATES, HEADQUARTERS AND BRANCH OFFICES.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Each prospective investor is urged to read this Prospectus in its entirety. Unless otherwise indicated, all information in this Prospectus gives effect to a 1,600-for-1 stock split effected in October 1996.

THE COMPANY

Mego Mortgage Corporation (the "Company") is a specialized consumer finance company that originates, purchases, sells and services consumer loans consisting primarily of home improvement loans secured by liens on the improved property. Through its network of independent correspondent lenders ("Correspondents") and home improvement construction contractors ("Dealers"), the Company initially originated only home improvement loans insured under the Title I credit insurance program ("Title I Loans") of the Federal Housing Administration (the "FHA"). The Title I program provides for insurance of 90% of the principal

balance of the loan, and certain other costs. The Company began offering conventional uninsured home improvement loans and debt consolidation loans ("Conventional Loans") through its Correspondents in May 1996. For the three months ended August 31, 1996, such loans totalled $11.2 million and constituted 22.5% of the Company's total loan originations.

The Company's borrowers are individuals who own their home and have verifiable income but may have limited access to traditional financing sources due to insufficient home equity, limited credit history or high ratios of debt service to income. These borrowers require or seek a high degree of personalized service and prompt response to their loan applications. As a result, the Company's borrowers generally are not averse to paying higher interest rates that the Company charges for its loan programs as compared to the interest rates charged by banks and other traditional financial institutions. The Company has developed a proprietary credit index profile that includes as a significant component the credit evaluation score methodology developed by Fair, Isaac and Company to classify borrowers on the basis of likely future performance. The other components of the Company's scoring system include debt to income ratio, employment history and residence stability. The Company charges varying rates of interest based upon the borrower's credit profile and income. For the year ended August 31, 1996, the loans originated by the Company had a weighted average interest rate of 14.03%.

The Company's loan originations increased to $139.4 million during the year ended August 31, 1996 from $87.8 million during the year ended August 31, 1995 and $8.2 million during the six months in which it originated loans in the year ended August 31, 1994. The Company's revenues increased to $25.0 million for the year ended August 31, 1996 from $13.6 million for the year ended August 31, 1995 and $751,000 for the year ended August 31, 1994. For the year ended August 31, 1996, the Company had net income of $6.9 million compared to $3.6 million for the year ended August 31, 1995. As a result of its substantial growth in loan originations, the Company has operated since March 1994, and expects to continue to operate for the foreseeable future, on a negative cash flow basis.

The Company sells substantially all the loans it originates through either whole loan sales to third party institutional purchasers or securitizations at a yield below the stated interest rate on the loans, retaining the right to service the loans and receive any amounts in excess of the yield to the purchasers. The Company completed its first two securitizations of Title I Loans in March and August 1996 totalling $133.0 million and expects to sell a substantial portion of its loan production through securitizations in the future. At August 31, 1996, the Company serviced $209.5 million of loans it had sold, and $4.7 million of loans it owned.

The Company's strategic plan is to continue to expand its lending operations while maintaining its credit quality. The Company's strategies include: (i) offering new loan products; (ii) expanding its network of Correspondents and Dealers; (iii) entering new geographic markets; (iv) realizing operational efficiencies through economies of scale; and (v) using securitizations to sell higher volumes of loans on more favorable terms. At August 31, 1996, the Company had developed a network of approximately 310 active Correspondents and approximately 435 active Dealers. The Company's Correspondents generally offer a wide variety of loans and its Dealers typically offer home improvement loans in conjunction with debt consolidation. By offering a more diversified product line, including Conventional Loans, and maintaining its high level of service, the Company has increased the loan production from its existing network of Correspondents. The

Company also intends to increase its number of active Correspondents and Dealers by greater penetration of existing markets, because of its broader product line, and through expansion into new geographic markets. The Company anticipates that as it expands its lending operations it will realize economies of scale, thereby reducing its average loan origination costs and enhancing its profitability. In addition, the Company intends to continue to sell its loan production through securitizations as opportunities arise. Through access to securitization, the Company believes that it has the ability to sell higher volumes of loans on more favorable terms than through whole loan sales. See "Business -- Business Strategy."

The Company was incorporated under the laws of the State of Delaware in 1992. The Company's principal executive offices are located at 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339, and its telephone number is (770) 952-6700.

THE OFFERING

Amount offered.....	$40.0 million aggregate principal

	amount.
Maturity date.....	, 2001.
Interest payment dates.....	and of each year, commencing , 1997.
Subsidiary Guarantees.....	The obligations of the Company under the Notes will be jointly and severally guaranteed by each of the future Restricted Subsidiaries, other than Special Purpose Subsidiaries. See "Description of the Notes -- Subsidiary Guarantees."
Optional redemption.....	The Notes are not redeemable by the Company prior to , , except that, until , 1998, the Company may redeem, at its option, up to 35% of the original principal amount of the Notes at the redemption price set forth herein plus accrued interest to the date of redemption with the net proceeds of one or more Public Equity Offerings if at least 65% of the original principal amount of the Notes remains outstanding after such redemption. On or after , , the Notes will be redeemable at the option of the Company in whole or in part, at the redemption prices set forth herein, plus accrued interest to the date of redemption. See "Description of the Notes -- Optional Redemption."
Mandatory redemption.....	None.
Ranking.....	The Notes will be general unsecured obligations of the Company, subordinated in right of payment to all existing and future Senior Indebtedness of the Company and will be senior in right of payment to all Indebtedness (as defined herein) of the Company that by its terms is expressly subordinated in right of payment to the Notes. Each Subsidiary Guarantee will be a general unsecured obligation of the Subsidiary Guarantor, subordinated in right of payment to all Senior Indebtedness of such Subsidiary Guarantor and will be senior in right of payment to all Indebtedness of such Subsidiary Guarantor that by its terms is expressly subordinated in right of payment to the Subsidiary

	Guarantee. As of August 31, 1996, after giving pro forma effect to the issuance of the Notes and the Common Stock Offering and the application of the net proceeds therefrom, the outstanding Senior Indebtedness of the Company, on a consolidated basis, would have been approximately $932,000.
Change of Control.....	Upon a Change of Control, holders of the Notes will have the option to require the Company to repurchase up to all outstanding Notes of the holders requiring such repurchase at 101% of their principal amount, plus accrued interest to the date of repurchase. There can be no assurance that the Company will have the funds available to repurchase the Notes in the event of

	a Change of Control.
Certain covenants.....	The Indenture (as defined herein) pursuant to which the Notes will be issued will contain certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur certain indebtedness, pay dividends and make other distributions, engage in transactions with affiliates, sell assets (including stock of subsidiaries), issue subsidiary preferred stock, create certain liens, engage in mergers or consolidations and enter into any arrangement that would impose certain restrictions on the ability of subsidiaries to make dividend and other payments to the Company. See "Description of the Notes -- Certain Covenants."
Amendment or waiver of Indenture provisions.....	Certain provisions of the Indenture, including those related to Change of Control, may be amended or waived with the consent of the holders of at least the majority in principal amount of then outstanding Notes.
Use of proceeds.....	The Company intends to use the aggregate net proceeds of the Offering and the Common Stock Offering to provide capital to originate and securitize loans, to repay Intercompany Debt and to pay down the amounts outstanding under the Company's lines of credit. See "Use of Proceeds."

CONCURRENT OFFERING OF COMMON STOCK

Concurrent with the Offering, the Company is offering 2,000,000 shares of Common Stock (plus up to an additional 300,000 shares to cover over-allotments, if any) by a separate prospectus in the Common Stock Offering. The consummation of the Offering and the Common Stock Offering are conditioned upon each other. In connection with the Common Stock Offering, the Company has applied for quotation of the Common Stock on The Nasdaq National Market under the symbol "MMGC."

RISK FACTORS

Investment in the Notes offered hereby involves a high degree of risk. Each prospective investor should carefully consider all of the matters described herein under "Risk Factors," including, among others: risks relating to subordination and leverage; risks relating to control by Mego Financial; consequences of a change of control; risks related to the Company's dependence on securitization transactions; the fact that the Company has operated, and expects to continue to operate, on a negative cash flow basis; risks relating to changes in interest rates; risks associated with capitalized excess servicing rights and valuation of mortgage related securities; risks relating to possible termination of servicing rights; contingent risks including the risks relating to losses from loan delinquencies and other loan defaults; risks relating to the Company's limited operating history; risks inherent in the implementation of the Company's growth strategy; risks relating to the Company's dependence on credit enhancement; risks relating to dependence on financing and need for additional financing; risks relating to the Company's concentration of operations in California and Florida; legislative and regulatory risks; risks related to fraudulent conveyances and preferential transfers; risks related to permissible operation through subsidiaries; risks relating to the Company's dependence on management, Mego Financial and PEC; risks associated with competition; the absence of a public market for the Notes; and factors inhibiting a takeover of the Company.

RELATIONSHIP WITH MEGO FINANCIAL

Mego Financial Corp. ("Mego Financial"), a publicly traded company,

currently owns 100% of the outstanding Common Stock. Upon completion of the Common Stock Offering, Mego Financial will own approximately 83.3% of the outstanding Common Stock (approximately 81.3% if the underwriters of the Common Stock Offering exercise their over-allotment option in full). As a result of its ownership interest, upon completion of the Common Stock Offering, Mego Financial will have voting control on all matters submitted to stockholders of the Company, including the election of directors and the approval of extraordinary corporate transactions. See "Principal Stockholders." In order to fund the Company's past operations and growth, and in conjunction with filing consolidated tax returns, the Company incurred debt and other obligations ("Intercompany Debt") to Mego Financial and its subsidiary Preferred Equities Corporation ("PEC"). The amount of Intercompany Debt was $8.5 million at August 31, 1995 and $12.8 million at August 31, 1996. The Company intends to use a portion of the aggregate net proceeds from the Offering and the Common Stock Offering to repay Intercompany Debt. It is not anticipated that Mego Financial will continue to provide funds to the Company or guarantee the Company's indebtedness following consummation of the Offering. The Company also has agreements with PEC for the provision of management services and loan servicing and an agreement with Mego Financial for tax sharing. See "Use of Proceeds" and "Certain Transactions."

SUMMARY FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The summary financial information set forth below should be read in conjunction with the financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus.

<TABLE>
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	YEAR ENDED AUGUST 31,		
	1994(1)	1995	1996
<S>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:			
Revenues:			
Gain on sale of loans	$ 579	$12,233	$17,994
Net unrealized gain on mortgage related securities(2)	--	--	2,697
Loan servicing income	--	873	3,348
Interest income, net of interest expense of $107, $468 and $1,116	172	473	988
Total revenues	751	13,579	25,027
Total costs and expenses	2,262	7,660	13,872
Income (loss) before income taxes(3)	(1,511)	5,919	11,155
Income taxes(3)	--	2,277	4,235
Net income (loss)	$(1,511)	$ 3,642	$ 6,920
Pro forma net income per share(4)			$ 0.60

</TABLE>

<TABLE>
<CAPTION>

	AS OF AUGUST 31,		AS OF AUGUST 31, 1996	
	1994(1)	1995	ACTUAL	AS ADJUSTED(5)
<S>	<C>	<C>	<C>	<C>
STATEMENT OF FINANCIAL CONDITION DATA:				
Loans held for sale, net	$1,463	$ 3,676	$ 4,610	$ 4,610
Excess servicing rights	904	14,483	12,121	12,121
Mortgage related securities(2)	--	--	22,944	22,944
Total assets	5,122	24,081	50,606	86,173
Total liabilities	983	13,300	32,905	46,827
Total stockholder's equity	4,139	10,781	17,701	39,346

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,

	1994(1)	1995	1996
<S>	<C>	<C>	<C>
OPERATING DATA:			
Loans originated	$8,164	$87,751	$139,367
Weighted average interest rate on loans originated	14.18 %	14.55%	14.03%
Servicing portfolio (end of year):			
Company-owned loans	$1,471	$ 3,720	$ 4,698
Sold loans	6,555	88,566	209,491
Total	$8,026	$92,286	$214,189
Delinquency period(6):			
31-60 days past due	2.06 %	2.58%	2.17%
61-90 days past due	0.48	0.73	0.85
91 days and over past due	0.36	0.99	4.53(7)
91 days and over past due, net of claims filed(8)	0.26	0.61	1.94
Claims filed with HUD(9)	0.10	0.38	2.59
Amount of FHA insurance available (end of year)	$ 813	$ 9,552	$ 21,205(10)
Amount of FHA insurance available as a percentage of loans serviced (end of year)	10.13 %	10.35%	9.90%
Ratio of earnings to fixed charges(11)	N/A	7.69x	2.29x(12)

</TABLE>

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(1) The Company commenced originating loans in March 1994.

(2) Mortgage related securities consist of certificates representing interests retained by the Company in securitization transactions.

(3) The results of operations of the Company are included in the consolidated federal income tax returns filed by Mego Financial, the Company's sole stockholder. Mego Financial allocates income taxes to the Company calculated on a separate return basis. See "Certain Transactions."

(4) Shares used in computing pro forma net income per share include the weighted average of common stock outstanding during the period. There were no common stock equivalents. Historical per share data is not included because the data is not considered relevant or indicative of the ongoing operations of the Company. Net income utilized in the calculation of pro forma net income per share has been reduced by an estimated pro forma interest expense in the amount of $1,544,000 and a related tax benefit of $587,000 based upon the application of a 13% interest rate to the Company's average balance of non-interest bearing debt payable to Mego Financial. Pro forma net income per share would change by $0.01 with a 1% change in the interest rate utilized.

(5) As adjusted to give effect to (i) the sale of the Notes offered hereby (after deducting underwriting discounts and estimated expenses of the Offering), (ii) the sale of the 2,000,000 shares of Common Stock pursuant to the Common Stock Offering (at an assumed initial public offering price of $12.00 per share and after deducting underwriting discounts and estimated expenses of the Common Stock Offering) and (iii) the application of the estimated net proceeds from the Offering and the Common Stock Offering as described under "Use of Proceeds."

(6) Represents the dollar amount of delinquent loans as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(7) During fiscal 1996, the processing and payment of claims filed with HUD were delayed. See "Business -- Loan Servicing."

(8) Represents the dollar amount of delinquent loans net of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(9) Represents the dollar amount of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(10) If all claims filed with HUD had been processed and paid as of period end, the amount of FHA insurance available would have been reduced to $16,215,000, which as a percentage of loans serviced would have been 7.77%.

(11) Earnings include pretax income, the portion of rents representative of the interest factor and interest on debt. Fixed charges include interest on indebtedness, prepaid commitment fees and the portion of rents representative of the interest factor.

(12) Ratio computed giving pro forma effect for the total additional interest expense resulting from the proposed issuance by the Company of the Notes at

an assumed interest rate of 13% in lieu of the interest expense recorded by the Company under its existing lines of credit intended to be repaid with the proceeds of the Offering and the Common Stock Offering.

RISK FACTORS

Investment in the Notes offered hereby involves a high degree of risk, including the risks described below. Each prospective investor should carefully consider the following risk factors inherent in and affecting the business of the Company and this offering before making an investment decision. This Prospectus contains forward-looking statements which involve risks and uncertainties. Discussions containing such forward-looking statements may be found in the material set forth under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as in the Prospectus generally. Actual events or results may differ as a result of various factors, including, without limitation, the risk factors set forth below and the matters set forth in the Prospectus generally.

SUBORDINATION AND LEVERAGE

The Notes (including the Subsidiary Guarantees) will be subordinated in right of payment to all existing and future Senior Indebtedness, including all warehouse indebtedness and all other indebtedness for borrowed money. The Company currently has significant outstanding indebtedness and subsequent to the Offering, the Company will be significantly leveraged. As of August 31, 1996, after giving effect to the Offering and the Common Stock Offering and the application of the net proceeds therefrom, the Company would have had outstanding indebtedness of approximately $40.9 million, of which approximately $932,000 would have been Senior Indebtedness to which the Notes are subordinated. See "Capitalization." In addition, subject to the limitations set forth in the Indenture, the Company and its future Subsidiaries (as defined herein) may incur substantial amounts of additional indebtedness, much of which is expected to constitute Senior Indebtedness. By reason of the subordination of the Notes, in the event of insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of the Company or any Subsidiary Guarantor (as defined herein) or upon default in payment with respect to or acceleration of any Senior Indebtedness of the Company or any Subsidiary Guarantor or an event of default with respect to certain Senior Indebtedness continuing for up to 179 days, the assets of the Company or the Subsidiary Guarantor would be available to pay the amounts due on the Notes only after such Senior Indebtedness had been paid in full. The Company is a party to certain warehouse facilities for the financing of its loan originations, which facilities are secured by the loans financed thereby. The Company also has certain additional secured credit facilities and, subject to the limitations set forth in the Indenture, may have additional amounts of secured indebtedness in the future. The Notes (including the Subsidiary Guarantees) are effectively subordinated to all such secured obligations to the extent of the collateral, irrespective of whether payments on the Notes (including the Subsidiary Guarantees) are otherwise permitted to be made under the subordination provisions in the Indenture prior to payment of such other indebtedness in full. Upon certain events of default under such facilities, the lenders could elect to declare all amounts outstanding, together with accrued and unpaid interest thereon, to be immediately due and payable. If the Company were unable to repay those amounts, the lenders could proceed against the collateral granted them to secure that indebtedness. If any of such indebtedness were to be accelerated, there can be no assurance that the assets of the Company would be sufficient to repay in full that indebtedness and the other indebtedness of the Company, including the Notes.

The Company's ability to make payments of principal and interest on, or to refinance its indebtedness (including the Notes) depends on its future operating performance, which to a certain extent is subject to economic, financial, competitive and other factors beyond its control. The degree to which the Company is leveraged could have important consequences to the holders of the Notes, including (i) the Company's vulnerability to adverse general economic and industry conditions, (ii) the Company's ability to obtain additional financing for future working capital expenditures (including loan originations), general corporate purposes or other purposes, and (iii) the dedication of a substantial portion of the Company's cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations and future business opportunities.

CONTROL BY MAJORITY STOCKHOLDER

Upon completion of the Common Stock Offering, the Company's current sole stockholder, Mego Financial, will beneficially own approximately 83.3% of the outstanding shares of Common Stock (approximately 81.3% if the underwriters of the Common Stock Offering exercise their over-allotment option in full) and will therefore be able to elect the entire Board of Directors and control all matters submitted to stockholders for a vote, all fundamental corporate matters, including the selection of management and key personnel, whether the Company engages in any mergers, acquisitions or other business combinations or whether Mego Financial, at some time in the future, divests all or any portion of its interest in the Company by means of a distribution to its stockholders or otherwise. The Common Stock Offering has been structured in such a way as to facilitate the ability of Mego Financial, should it so determine in the future, to effect a subsequent tax free distribution of all or a portion of Mego Financial's shares in the Company to its shareholders, although there is no assurance that any such distribution will occur. The Company has been advised that Mego Financial may seek a ruling from the Internal Revenue Service, as is customary, that such a distribution would be tax free. There is no assurance that it will obtain such a ruling. Pursuant to the Amended and Restated Certificate of Incorporation of the Company (the "Certificate of Incorporation") and an agreement between Mego Financial and the Company, no additional shares of Common Stock may be issued by the Company that would reduce Mego Financial's interest below 80% without Mego Financial's written approval, so long as Mego Financial owns at least 80% of the issued and outstanding Common Stock of the Company (the "Eighty Percent Period"). In addition, although the Certificate of Incorporation provides for the issuance of one or more series of preferred stock from time to time, during the Eighty Percent Period no shares of any other class of capital stock may be issued without Mego Financial's written approval during such period, nor may the Company invest in or form any corporation without such approval. Amendments to the Company's bylaws and changes to the Board are also subject to such approval during the Eighty Percent Period. Any decision as to whether any transactions of the type mentioned above ultimately occur will be solely within the discretion of Mego Financial. See "Principal Stockholders."

CONSEQUENCES OF CHANGE OF CONTROL

Upon the occurrence of a Change of Control, the holders of the Notes would be entitled to require the Company to repurchase up to all outstanding Notes of the holders requiring such repurchase at a purchase price equal to 101% of the principal amount of such Notes plus accrued and unpaid interest thereon to the date of repurchase. Failure by the Company to make such a repurchase would result in a default under the Indenture. In addition, the future indebtedness of the Company and the Subsidiaries may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require such indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the holders of the Notes of their right to require the Company to repurchase the Notes could cause a default under such indebtedness due to the financial effect of such repurchase on the Company or otherwise, even if the Change of Control itself does not cause a default. In the event of a Change of Control, there can be no assurance that the Company would have sufficient assets to repurchase the Notes and to satisfy its other obligations under the Notes and any such other indebtedness or be permitted to make such repurchase in compliance with the subordination provisions in the Indenture. See "Description of the Notes -- Change of Control."

LIQUIDITY -- DEPENDENCE ON SECURITIZATION TRANSACTIONS

The values of and markets for the sale of the Company's loans are dependent upon a number of factors, including general economic conditions, interest rates and government regulations. Adverse changes in those factors may affect the Company's ability to originate or sell loans in the secondary market for acceptable prices within reasonable time frames. The ability of the Company to sell loans in the secondary market is essential for continuation of the Company's loan origination activities. A reduction in the size of the secondary market for home improvement loans would adversely affect the Company's ability to sell its loans in the secondary market with a consequent adverse impact on the Company's profitability and future originations.

The Company entered into its first two securitization transactions, which involve the pooling and sale of loans, in March 1996 and August 1996 and intends to continue to sell loans through securitization transactions

from time to time as opportunities arise. Pursuant to these securitizations, pass-through certificates evidencing interests in the pools of loans were sold

in public offerings. There can be no assurance that the Company will be able to securitize its loan production efficiently. Securitization transactions may be affected by a number of factors, some of which are beyond the Company's control, including, among other things, conditions in the securities markets in general, conditions in the asset-backed securitization market, the conformity of loan pools to rating agency requirements and, to the extent that monoline insurance is used, the requirements of such insurers. Adverse changes in the securitization market could impair the Company's ability to originate and sell loans through securitizations on a favorable or timely basis. Any such impairment could have a material adverse effect upon the Company's results of operations and financial condition. Furthermore, the Company's quarterly operating results can fluctuate significantly as a result of the timing and level of securitizations.

LIQUIDITY -- NEGATIVE CASH FLOW

As a result of the substantial growth in loan originations, the Company has operated since March 1994, and expects to continue to operate for the foreseeable future, on a negative cash flow basis. During the year ended August 31, 1996, the Company operated on a negative cash flow basis using $15.3 million in operations that was funded primarily from borrowings, due primarily to an increase in loans originated and the Company's sale of loans. In connection with whole loan sales and securitizations, the Company recognizes a gain on sale of the loans upon the closing of the transaction and the delivery of the loans, but does not receive the cash representing such gain until it receives the excess servicing spread, which is payable over the actual life of the loans sold. The Company incurs significant expenses in connection with securitizations and incurs tax liabilities as a result of the gain on sale. The Company must maintain external sources of cash to fund its operations and pay its taxes and therefore must maintain warehouse lines of credit and other external funding sources. If the capital sources of the Company were to decrease, the rate of growth of the Company would be negatively affected. See "-- Dependence on Mego Financial and PEC."

The pooling and servicing agreements relating to the Company's securitizations require the Company to build over-collateralization levels through retention within each securitization trust of excess servicing distributions and application thereof to reduce the principal balances of the senior interests issued by the related trust or cover interest shortfalls. This retention causes the aggregate principal amount of the loans in the related pool to exceed the aggregate principal balance of the outstanding investor certificates. Such over-collateralization amounts serve as credit enhancement for the related trust and therefore are available to absorb losses realized on loans held by such trust. The Company continues to be subject to the risks of default and foreclosure following the sale of loans through securitizations to the extent excess servicing distributions are required to be retained or applied to reduce principal or cover interest shortfalls from time to time. Such retained amounts are predetermined by the entity issuing the guarantee of the related senior interests and are a condition to obtaining insurance and an AAA/Aaa rating thereon. In addition, such retention delays cash distributions that otherwise would flow to the Company through its retained interest, thereby adversely affecting the flow of cash to the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

After giving pro forma effect to the Offering and the Common Stock Offering, the Company would have had net income of $6.0 million for the year ended August 31, 1996 and its ratio of earnings to fixed charges would have been 2.29x. However, this ratio is not necessarily indicative of the adequacy of the Company's cash flow from operating activities to cover fixed charges because net income consists largely of non-cash items. There can be no assurance that cash from operations will be sufficient to enable it to make required interest payments on its debt obligations and other required payments, and the Company may encounter liquidity problems which could affect its ability to meet such obligations while attempting to withstand competitive pressures. See "Selected Financial Data."

INTEREST RATE RISKS

Changes in interest rates affect the Company's business in a variety of ways, including decreased demand for loans during periods of higher interest rates, fluctuations in profits derived from the difference between

short-term and long-term interest rates and increases in prepayment rates during periods of lower interest rates. The profits realized by the Company from home improvement loans are, in part, a function of the difference between fixed

long-term interest rates, at which the Company originates its home improvement loans, and adjustable short-term interest rates, at which the Company finances such loans until the closing of the sale of such loans. Generally, short-term rates are lower than long-term rates and the Company benefits from the positive interest rate differentials during the time the loans are held by the Company pending the closing of the sale of such loans. During the period from 1994 through the present, the interest rate differential was high and this fact contributed significantly to the Company's net interest income. The interest rate differential may not continue at such favorable levels in the future.

Changes in interest rates during the period between the time an interest rate is established on a loan and the time such loan is sold affect the revenues realized by the Company from loans. In connection with the origination of loans, the Company issues loan commitments for periods of up to 45 days in the case of Correspondents and 90 days in the case of Dealers. Furthermore, the period of time between the closing on a loan and the sale of such loan generally ranges from 10 to 90 days. Increases in interest rates during these periods will result in lower gains (or even losses) on sales of loans than would be recorded if interest rates had remained stable or had declined. Changes in interest rates after the sale of loans also affect the profits realized by the Company with respect to loan sale transactions in which the yield to the purchaser is based on an adjustable rate. During the years ended August 31, 1995 and 1996, the Company sold loans under an agreement which provides for the yield to the purchaser to be adjusted monthly to a rate equal to 200 basis points over the one-month London Interbank Offered Rate ("LIBOR"). An increase in LIBOR would result in a decrease in the Company's future income from such sold loans resulting in a charge to earnings in the period of adjustment. Although through August 31, 1996 the Company has not suffered losses in connection with the sale of Title I Loans or Conventional Loans as a result of interest rate changes, there can be no assurance that such losses will not occur in the future. To date, the Company has not hedged its interest rate risk, although it may do so in the future. To the extent that the Company engages in hedging transactions, there can be no assurance that it will be successful in mitigating the adverse impact of changes in interest rates.

Interest rate levels also affect the Company's excess servicing spread. The Company generally retains the servicing rights to the loans it sells. The yield to the purchaser is generally lower than the average stated interest rates on the loans, as a result of which the Company earns an excess servicing spread on the loans it sells. Increases in interest rates or competitive pressures may result in reduced servicing spreads, thereby reducing or eliminating the gains recognized by the Company upon the sale of loans in the future.

CAPITALIZED EXCESS SERVICING RIGHTS AND VALUATION OF MORTGAGE RELATED SECURITIES

At August 31, 1996, the Company's statement of financial condition reflected excess servicing rights of $12.1 million, mortgage related securities of $22.9 million and mortgage servicing rights of $3.8 million. The Company derives a significant portion of its income by realizing gains upon the sale of loans due to the excess servicing rights associated with such loans recorded at the time of sale and the capitalization of mortgage servicing rights recorded at origination. Excess servicing rights as capitalized on the Company's statement of financial condition represent the excess of the interest rate payable by an obligor on a loan over the interest rate passed through to the purchaser acquiring an interest in such loan, less the Company's normal servicing fee and other applicable recurring fees.

The Company records gains on sale of loans through securitizations and whole loan sales based in part on the estimated fair value of the mortgage related securities (residual and interest only securities) retained by the Company and on the estimated fair value of retained mortgage servicing rights related to such loans. When loans are sold, the Company recognizes as current revenue the present value of the excess servicing rights expected to be realized over the anticipated average life of loans sold less future estimated credit losses relating to the loans sold. Mortgage related securities consist of certificates representing the excess of the interest rate payable by an obligor on a sold loan over the yield on pass-through certificates sold pursuant to a securitization transaction, after payment of servicing and other fees. The capitalized excess servicing rights, and capitalized mortgage servicing rights and valuation of mortgage related securities are computed using

prepayment, default and interest rate assumptions that the Company believes are reasonable. The amount of revenue recognized upon the sale of loans will vary depending on the assumptions utilized. The weighted average discount rate used to determine the present value of the balance of capitalized excess servicing rights and capitalized mortgage servicing rights reflected on the Company's statement of financial condition at August 31, 1995 and 1996 was approximately

12%. Capitalized excess servicing rights are amortized over the lesser of the estimated or actual remaining life of the underlying loans as an offset against the excess servicing rights component of servicing income actually received in connection with such loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Although the Company believes that it has made reasonable estimates of the fair value of the mortgage related securities, the excess servicing rights and mortgage servicing rights likely to be realized, the rate of prepayment and the amount of defaults utilized by the Company are estimates and actual experience may vary from its estimates. The gain recognized by the Company upon the sale of loans and unrealized gain on mortgage related securities will have been overstated if prepayments or defaults are greater than anticipated. Higher levels of future prepayments could result in excess servicing rights and mortgage servicing rights amortization expense exceeding realized excess servicing rights and mortgage servicing rights, thereby adversely affecting the Company's servicing income and resulting in a charge to earnings in the period of adjustment. Similarly, if delinquencies or liquidations were to be greater than initially assumed, excess servicing rights and mortgage servicing rights amortization would occur more quickly than originally anticipated, which would have an adverse effect on loan servicing income in the period of such adjustment. The Company periodically reviews its prepayment assumptions in relation to current rates of prepayment and, if necessary, reduces the remaining asset to the net present value of the estimated remaining future excess servicing rights. Rapid increases in interest rates or competitive pressures may result in a reduction of excess servicing income recognized by the Company upon the sale of loans in the future, thereby reducing the gains recognized by the Company upon such sales. Higher levels of prepayments than initially assumed would result in a charge to earnings in the period of adjustment.

Increases in interest rates or higher than anticipated rates of loan prepayments or credit losses on the underlying loans of the Company's mortgage related securities or similar securities may require the Company to write down the value of such mortgage related securities and result in a material adverse impact on the Company's results of operations and financial condition. The Company is not aware of an active market for the mortgage related securities, excess servicing rights or mortgage servicing rights. No assurance can be given that the mortgage related securities, capitalized excess servicing rights or mortgage servicing rights could in fact be sold at their carrying value, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In order to provide availability under its warehouse line of credit, during the years ended August 31, 1995 and 1996, the Company sold an aggregate of approximately $175.8 million of loans under an agreement which provides for the yield to the purchaser to be adjusted monthly to a rate equal to 200 basis points over LIBOR. The Company is not obligated to reacquire and the purchaser is not obligated to resell such loans. In March 1996 and August 1996, in order to fix the yield on such loans, the Company reacquired $77.7 million and $36.2 million, respectively, of such loans and included the loans in pools of loans sold in its first two securitization transactions. As a result of the reacquisitions and subsequent sales in the securitization transactions, the gains on sale and excess servicing rights recognized upon the initial sales of the loans in such periods were recalculated without any material adverse effect on the Company's earnings. The Company anticipates that in the future it may sell and then reacquire loans to be resold pursuant to securitizations, which will result in recalculation of the initial gain on sale and excess servicing rights. Any such recalculation in such periods could have a material adverse effect on the Company's earnings in the period of recalculation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

POSSIBLE TERMINATION OF SERVICING RIGHTS

The pooling and servicing agreements relating to the Company's securitization transactions contain provisions with respect to the maximum permitted loan delinquency rates and loan default rates, which, if

exceeded, would allow the termination of the Company's right to service the related loans. At September 30, 1996, the default rates on the pool of loans sold in the March 1996 securitization transaction exceeded the permitted limit set forth in the related pooling and servicing agreement. Accordingly, this condition could result in the termination of the Company's servicing rights with respect to that pool of loans by the trustee, the master servicer or the insurance company providing credit enhancement for that transaction. The mortgage servicing rights on this pool of loans were approximately $1.4 million

at August 31, 1996. Although the insurance company has indicated that it, and to its knowledge the trustee and the master servicer, has no present intention to terminate the Company's servicing rights, no assurance can be given that one or more of such parties will not exercise its right to terminate. In the event of such termination, there would be an adverse effect on the valuation of the Company's mortgage servicing rights. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Possible Termination of Servicing Rights."

CONTINGENT RISKS

Loan delinquencies and other loan defaults by obligors expose the Company to risks of loss and reduced net earnings. The loan delinquency and default risks to which the Company's business is subject become more acute in an economic slowdown or recession. During such periods, loan delinquencies and other defaults generally increase. In addition, significant declines in market values of the properties that secure loans serviced by the Company reduce homeowners' equity in their homes and their borrowing power, thereby increasing the likelihood of delinquencies and defaults. Because most of the Company's borrowers generally lack significant equity in their homes, the likelihood of default may be further increased. This lack of equity also increases the risk that, upon the occurrence of a customer default, the Company would be unlikely to recover more than the amount insured (if any).

Although the Company sells substantially all loans which it originates on a limited recourse basis, the Company retains some degree of risk on substantially all loans sold. In connection with whole loan sales, the excess servicing payable to the Company is subordinated to the payment of scheduled principal and interest due to the purchasers of such loans. The Company is required under the loan sale documentation to establish reserves which are typically based on a percentage of the principal balances of such loans and funded from the excess servicing spread received by the Company. If a reserve falls below the required level, the Company is obligated under the loan sale documentation to restore the reserve from the servicing spread received by the Company, thereby reducing the stream of revenue from the servicing spread. Similarly, in connection with loan securitizations, the residual certificates retained by the Company are subordinated to the payment of scheduled principal and interest on the senior certificates issued by the securitization trust. In the event that payments received on the loans are insufficient to make scheduled payments of principal and interest on the senior certificates, the amounts otherwise distributable with respect to the residual certificates will be used to cover the shortfall, thereby reducing the stream of revenues from such residual certificates. Although the Company believes it maintains adequate reserves for potential losses from delinquencies and defaults, there can be no assurance that such levels of reserves will be adequate in the future. In addition, documents governing the Company's securitizations and whole loan sales require the Company to commit to reacquire or replace loans that do not conform to the representations and warranties made by the Company at the time of sale. When borrowers are delinquent in making monthly payments on loans included in a securitization trust, the Company is required to advance interest payments with respect to such delinquent loans to the extent that the Company deems such advances ultimately recoverable. These advances require funding by the Company but have priority of repayment from the succeeding month's collections. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources," "Business -- Loan Servicing -- Sale of Loans" and Note 2 of Notes to Financial Statements.

During the period of time that loans are held pending sale, the Company is subject to the various business risks associated with the lending business, including the risk of borrower default, the risk of foreclosure and the risk that a rapid increase in interest rates would result in a decline in the value of loans to potential purchasers. To date, 95% of the loans originated by the Company qualify under Title I of the National Housing Act pursuant to which 90% of the principal balances of such loans are insured by the FHA; however, the Company bears the risk of delinquencies and defaults with respect to the uninsured portion of such loans. Moreover,

even as to the insured portion, the amount of reimbursement to which the Company is entitled pursuant to Title I is limited to the amount of insurance coverage in its reserve account established by the FHA. The amount of insurance coverage in a lender's reserve account is equal to 10% of the original principal amount of all Title I Loans originated and reported for insurance coverage by the lender less the amount of all insurance claims approved for payment in connection with losses on such loans and less amounts transferred in connection with sales of loans. The Company also would sustain a loss on loans if defaults occur that are not cured and proceeds from FHA insurance or the foreclosure on

and disposition of property securing a defaulted loan are less than the amounts due on the loan plus carrying and other costs. Furthermore, Title I sets forth requirements to be satisfied by the lender in connection with the origination of Title I Loans and the submission of claims for insurance. The exhaustion of the reserves or the Company's failure to comply with Title I requirements could result in denial of payment by FHA.

As a percentage of the total serviced portfolio, the principal balance of loans contractually past due 91 days or more has increased from 0.99% as of August 31, 1995 to 4.53% as of August 31, 1996. This rise in delinquencies, all of which pertain to the portfolio of Title I Loans, represents an expected seasoning of the portfolio. This increase includes approximately 2.59% of the serviced portfolio pursuant to which claims have been filed with HUD. As of August 31, 1996 the Company had received payment on 83 claims filed with HUD aggregating $1.3 million. As of August 31, 1996, none of the Company's Conventional Loans was more than 30 days contractually past due.

The Company began originating Conventional Loans through its Correspondents in May 1996. For the three months ended August 31, 1996, such loans totalled $11.2 million and constituted 22.5% of the Company's total loan originations. During the period of time that such loans are held for sale, the Company bears the risk of delinquencies and defaults with respect to the entire principal amount of and interest on such loans and the risk that the realizable value of the property securing such loans will not be sufficient to repay the borrower's obligations to the Company. Significant defaults under these loans could have a material adverse effect on the Company's results of operations and financial condition. The Company's Conventional Loan program provides for loan amounts up to $60,000 with fixed rates of interest and terms up to 20 years. The proceeds of these loans are utilized to pay for home improvements and for consolidation of existing debt. The Company has focused on those borrowers who have demonstrated excellent payment history on their existing credit. Heavier reliance in the approval of these loans has been placed on the credit worthiness of the borrowers as opposed to underlying collateral value of the properties. The Company takes a lien, generally junior in priority, on each of the properties, however on average the total debt to market value, including the Company's loan, has been 110%.

In the ordinary course of its business, the Company is subject to claims made against it by borrowers and private investors arising from, among other things, losses that are claimed to have been incurred as a result of alleged breaches of fiduciary obligations, misrepresentations, errors and omissions of employees, officers and agents of the Company (including its appraisers), incomplete documentation and failures by the Company to comply with various laws and regulations applicable to its business. The Company believes that liability with respect to any currently asserted claims or legal actions is not likely to be material to the Company's results of operations or financial condition; however, any claims asserted in the future may result in legal expenses or liabilities which could have a material adverse effect on the Company's results of operations and financial condition.

LIMITED OPERATING HISTORY

The Company began originating Title I Loans in March 1994 and began offering Conventional Loans in May 1996. The Company's prospects must be considered in light of the risks, delays, expenses and difficulties frequently encountered in connection with an early-stage business in a highly-regulated, competitive environment. No assurance can be given that the Company will successfully implement any of its plans or develop its current operations in a timely or effective manner or whether the Company will be able to continue to generate significant revenues or operate profitably.

RISKS RELATING TO GROWTH STRATEGY

The Company's strategic plan contemplates the continued expansion of its mortgage lending operations. The Company's ability to continue implementing its expansion strategy depends on its ability to increase the volume of loans it originates while maintaining credit quality and managing its resulting growth. The Company's ability to increase its volume of loans will depend on, among other factors, its ability to (i) obtain and maintain increasingly larger lines of credit, (ii) securitize pools of loans for sale, (iii) offer attractive products to prospective borrowers, (iv) attract and retain qualified underwriting, servicing and other personnel, (v) market its loan products successfully and (vi) establish and maintain relationships with Correspondents and Dealers in states in which the Company is currently active and in additional states. The Company's ability to manage growth as it pursues its expansion strategy will be dependent upon, among other things, its ability to (i) maintain appropriate procedures, policies and systems to ensure that the Company's loan

portfolio does not have an unacceptable level of credit risk and loss, (ii) satisfy its need for additional financing on reasonable terms, (iii) manage the costs associated with expanding its infrastructure and (iv) continue operating in competitive, economic, regulatory and judicial environments that are conducive to the Company's business activities. As part of its expansion strategy, the Company has begun to offer a more diversified product line, including Conventional Loans which expose the Company to greater risks than Title I Loans. There can be no assurance that the Company will be able to continue to grow successfully.

DEPENDENCE ON CREDIT ENHANCEMENT

In order to gain access to the securitization market, the Company has relied on credit enhancements provided by a monoline insurance carrier to guarantee outstanding senior interests in the related securitization trusts to enable it to obtain an AAA/Aaa rating for such interests. The Company has not attempted to structure a mortgage loan pool for sale through a securitization based solely on the internal credit characteristics of the pool or the Company's credit. In the absence of such credit enhancements, the Company would be unable to market its loans through securitizations at reasonable rates. Any substantial reductions in the size or availability of the securitization market for the Company's loans, or the unwillingness or inability of insurance companies to insure the senior interests in the Company's loan pools, could have a material adverse effect on the Company's results of operations and financial condition. Furthermore, a downgrading of the insurer's credit rating or its withdrawal of credit enhancement could have a material adverse effect on the Company's results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

DEPENDENCE ON FINANCING; NEED FOR ADDITIONAL FINANCING

The Company's business operations require continued access to adequate credit facilities. The Company is dependent on the availability of credit facilities for the origination of loans prior to their sale. The Company has a financing arrangement for the financing of Title I and Conventional Loan originations prior to the sale of such loans, which provides for a warehouse line of credit of up to $20.0 million which expires in August 1997. At August 31, 1996, an aggregate of $3.3 million was outstanding under such line of credit and $16.7 million was available for borrowing. In addition, at August 31, 1996, the Company had a $10.0 million facility for the financing of excess servicing rights and mortgage related securities, of which $10.0 million was outstanding on that date. The revolving loan has an 18-month revolving credit period expiring in December 1997, followed by a 30-month amortization period. In September 1996, the Company entered into a repurchase agreement with a financial institution pursuant to which it pledged the interest only certificates from its two 1996 securitizations in exchange for a $3.0 million advance. In November 1996, the Company entered into an agreement with the same financial institution for the purchase of $2.0 billion of loans over a five-year period. The Company has also received a commitment from the financial institution for up to $11.0 million, reduced by any amounts advanced under the repurchase agreement, for the financing of the interest only and residual certificates from future securitizations. In the event that the proceeds received by the Company from the Offering and the Common Stock Offering together with cash flow from operations and its existing credit facilities prove to be insufficient to meet the Company's capital requirements, the Company may be required to seek additional financing. There can be no assurance that such financing will be available on favorable

terms, or at all. To the extent that the Company were not successful in maintaining or replacing existing financing or obtaining additional financing, or selling its loans or receivables, it would have to curtail its activities, which would have a material adverse effect on the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and Note 11 of Notes to Financial Statements.

INCOME TAXES

The Company files a consolidated federal income tax return with its parent, Mego Financial. Income taxes for the Company are provided for on a separate return basis. As part of its former tax sharing arrangement, the Company recorded a liability to Mego Financial for federal income taxes applied to the Company's financial statement income after giving consideration to applicable income tax law and statutory rates. Under a new tax sharing agreement with Mego

Financial, the Company will record a liability to Mego Financial calculated on a separate company basis. The Company accounts for taxes under SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), which requires an asset and liability approach. The provision for income taxes includes deferred income taxes, which result from reporting items of income and expense for financial statement purposes in different accounting periods than for income tax purposes. The Company also provides for state income taxes at the rate of 6% of income before income taxes.

CONCENTRATION OF OPERATIONS

Approximately 36.2% of the dollar volume of the Company's servicing portfolio at, and approximately 28.5% of the dollar volume of loans originated by the Company during the year ended, August 31, 1996 were secured by properties located in California. Although the Company is expanding its network nationally, significant portions of the Company's servicing portfolio and loan originations are likely to remain concentrated in California for the foreseeable future. Consequently, the Company's results of operations and financial condition are dependent upon general trends in the California economy and its residential real estate market. The California economy has experienced a slowdown or recession over the last several years that has been accompanied by a sustained decline in the California real estate market. Residential real estate market declines may adversely affect the value of the properties securing loans to the extent that the principal balances of such loans, together with any primary financing on the mortgaged properties, will equal or exceed the value of the mortgaged properties. In addition, California historically has been vulnerable to certain natural disaster risks, such as earthquakes and erosion-caused mudslides, which are not typically covered by the standard hazard insurance policies maintained by borrowers. Uninsured disasters may adversely impact borrowers' ability to repay loans made by the Company. The existence of adverse economic conditions or the occurrence of such natural disasters in California could have a material adverse effect on the Company's results of operations and financial condition.

In addition, approximately 12.5% of the dollar volume of the Company's servicing portfolio at, and approximately 15.0% of the dollar volume of loans originated by the Company during the year ended, August 31, 1996 were secured by properties located in Florida. As a result, the Company's results of operations and financial condition are dependent upon general trends in the Florida economy and its residential real estate market.

LEGISLATIVE AND REGULATORY RISKS

Members of Congress and government officials from time to time have suggested the elimination of the mortgage interest deduction for federal income tax purposes, either entirely or in part, based on borrower income, type of loan or principal amount. Because many of the Company's loans are made to borrowers for the purpose of consolidating consumer debt or financing other consumer needs, the competitive advantages of tax deductible interest, when compared with alternative sources of financing, could be eliminated or seriously impaired by such government action. Accordingly, the reduction or elimination of these tax benefits would have a material adverse effect on the demand for loans of the kind offered by the Company.

The Company's business is subject to extensive regulation, supervision and licensing by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions

imposing requirements and restrictions on part or all of its operations. The Company's consumer lending activities are subject to the Federal Truth-in-Lending Act and Regulation Z (including the Home Ownership and Equity Protection Act of 1994), the Federal Equal Credit Opportunity Act and Regulation B, as amended ("ECOA"), the Fair Credit Reporting Act of 1970, as amended, the Federal Real Estate Settlement Procedures Act ("RESPA") and Regulation X, the Home Mortgage Disclosure Act and the Federal Debt Collection Practices Act, as well as other federal and state statutes and regulations of, and examinations by, the Department of Housing and Urban Development ("HUD") and state regulatory authorities with respect to originating, processing, underwriting, selling, securitizing and servicing loans. These rules and regulations, among other things, impose licensing obligations on the Company, establish eligibility criteria for mortgage loans, prohibit discrimination, provide for inspections and appraisals of properties, require credit reports on loan applicants, regulate assessment, collection, foreclosure and claims handling, investment and interest payments on escrow balances and payment features, mandate certain disclosures and notices to borrowers and, in some cases, fix maximum interest rates, fees and mortgage loan amounts. Failure to comply with these requirements can lead to loss of approved status, termination or suspension of servicing contracts without compensation to the servicer, demands for indemnification or

mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits and administrative enforcement actions.

Although the Company believes that it has systems and procedures to facilitate compliance with these requirements and believes that it is in compliance in all material respects with applicable local, state and federal laws, rules and regulations, there can be no assurance that more restrictive laws, rules and regulations will not be adopted in the future that could make compliance more difficult or expensive. See "Business -- Government Regulation."

To date, a substantial portion of the loans originated by the Company have been Title I Loans. Accordingly, a substantial part of the Company's business is dependent on the continuation of the Title I Loan program, which is federally funded. In August 1995, bills were introduced in both houses of the United States Congress that would, among other things, abolish HUD, of which the FHA is a part, reduce federal spending for housing and community development activities and eliminate the Title I Loan program. Other changes to HUD have been proposed, which, if adopted, could affect the operation of the Title I Loan program. Discontinuation of or a significant reduction in the Title I Loan program or the Company's authority to originate loans under the Title I Loan program could have a material adverse effect on the Company's results of operations and financial condition.

FRAUDULENT CONVEYANCES AND PREFERENTIAL TRANSFERS

The ability of the holders of the Notes or the Trustee (as defined herein) to enforce the Subsidiary Guarantees may be limited by certain fraudulent conveyance and similar laws. Various fraudulent conveyance and similar laws have been enacted for the protection of creditors and may be utilized by a court of competent jurisdiction to avoid the Subsidiary Guarantees or to subordinate the obligations of the Company under the Notes or the obligations of any Subsidiary Guarantor under its Subsidiary Guarantee to obligations (including trade payables) that do not otherwise constitute Senior Indebtedness. The requirements for establishing a fraudulent conveyance vary depending on the law of the jurisdiction which is being applied. Generally, if in a bankruptcy, reorganization, rehabilitation or similar proceeding in respect of the Company or a Subsidiary Guarantor, or in a lawsuit by or on behalf of creditors against the Company or a Subsidiary Guarantor, a court were to find that (i) the Company or a Subsidiary Guarantor, as the case may be, incurred indebtedness in connection with the Notes (including the Subsidiary Guarantees) with the intent of hindering, delaying or defrauding current or future creditors of the Company or the Subsidiary Guarantor, as the case may be, or (ii) the Company or a Subsidiary Guarantor, as the case may be, received less than reasonably equivalent value or fair consideration for incurring such indebtedness, as the case may be, and either (a) was insolvent at the time of the incurrence of such indebtedness, (b) was rendered insolvent by reason of incurring such indebtedness, (c) was at such time engaged or about to engage in a business or transaction for which its assets constituted unreasonably small capital or (d) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, such court could, with respect to the Company or the Subsidiary Guarantor, as the case may be, declare void in whole or in part the obligations of the Company or such

Subsidiary Guarantor in connection with the Notes (including the Subsidiary Guarantees) and/or subordinate claims with respect to the Notes to all other debts of the Company or the Subsidiary Guarantors, as applicable. If the obligations of the Company or the Subsidiary Guarantors were subordinated, there can be no assurance that after payment of the other debts of the Company or the Subsidiary Guarantors, there would be sufficient assets to pay such subordinated claims with respect to the Notes and the Subsidiary Guarantees.

Generally, for purposes of the foregoing, an entity will be considered insolvent if the sum of its respective debts is greater than the fair saleable value of all of its property at a fair valuation or if the present fair saleable value of its assets is less than the amount that will be required to pay its probable liability on its existing debts, as they become absolute and mature.

Additionally, under federal bankruptcy or applicable state insolvency law, if certain bankruptcy or insolvency proceedings were initiated by or against the Company or any Subsidiary Guarantor within 90 days after any payment by the Company or such Subsidiary Guarantor with respect to the Notes or a Subsidiary Guarantee, respectively, or if the Company or such Subsidiary Guarantor anticipated becoming insolvent at the time of such payment, all or a portion of such payment could be avoided as a preferential transfer and the recipient of such payment could be required to return such payment.

PERMISSIBLE OPERATION THROUGH SUBSIDIARIES

Although the Company currently has no Subsidiaries, it is permitted to conduct future operations through Subsidiaries. If it forms or acquires Subsidiaries in the future, the Company may be required to rely, at least in part, upon payment from its Subsidiaries to generate the funds necessary to meet its obligations, including the payment of interest on and principal of the Notes. The ability of the Subsidiaries to make such payments will be subject to, among other things, applicable state laws, and may be subject to certain net worth maintenance requirements under warehouse credit facilities of subsidiaries that are permitted under the Indenture. See "Description of the Notes -- Certain Covenants -- Limitation on Restrictions of Distributions from Restricted Subsidiaries." Claims of creditors of the Company's Subsidiaries will generally have priority as to the assets of such Subsidiaries over the claims of the Company.

Although the Subsidiary Guarantees provide the Note holders with a direct claim against the assets of the Subsidiary Guarantors, enforcement of the Subsidiary Guarantees against any Subsidiary Guarantors would be subject to certain "suretyship" defenses available to guarantors generally, and such enforcement would also be subject to certain defenses available to the Subsidiary Guarantors in certain circumstances. See " --Fraudulent Conveyances and Preferential Transfers." Although the Indenture contains waivers of most "suretyship" defenses, certain of those waivers may not be enforced by a court in a particular case. To the extent that the Subsidiary Guarantees are not enforceable, the Notes would be effectively subordinated to all liabilities of the Company's Subsidiaries, including trade payables of such Subsidiaries, whether or not such liabilities otherwise constitute Senior Indebtedness under the Indenture. See " -- Subordination and Leverage," above.

DEPENDENCE ON MANAGEMENT

Certain of the Company's loan agreements with financial institutions contain provisions to the effect that if at least three of the four senior members of management of the Company do not continue to hold such positions or control the Company, whether due to death, disability, resignation or otherwise, the lenders have the right to declare the loans in default. In addition, one of such agreements also provides that the lender has the right to declare the loan in default upon the death of, or any reduction of the management responsibility of, more than one of these four senior managers. In such event, there is no assurance that the lenders will consider replacement managers acceptable to them and not declare such instruments in default. The Company has not entered into employment agreements with any of such senior managers.

DEPENDENCE ON MEGO FINANCIAL AND PEC

The Company has been dependent on Mego Financial to provide, among other things, (i) funds for operations without interest and (ii) guarantees of the Company's financing arrangements. The Company

anticipates that no further financing or guarantees will be made by Mego Financial following the completion of the Offering. There can be no assurance that the absence of such financing or guarantees will not have a material adverse effect on the Company, particularly as the Company seeks to grow. In addition, the Company has been dependent on its affiliate, PEC, to provide management services, routine loan collection services and management information systems, including services of certain of its executive officers. There can be no assurance that PEC will continue to provide such services. The loss of such services could have a material adverse effect on the Company if suitable replacements are not made.

COMPETITION

The consumer finance industry is highly competitive. Competitors in the consumer finance business include mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and finance companies. Certain of the Company's competitors are substantially larger, have greater name recognition and have more capital and other resources than the Company. Competition in the home improvement and debt consolidation loan business can take many forms including convenience in obtaining a loan, customer service, marketing and distribution channels and interest rates. In addition, the current level of gains realized by the Company and its existing competitors on the sale of loans could attract additional competitors to this market with the possible effect of lower gains on loan sales resulting from increased loan origination competition. According to a report issued by HUD, the Company was the fourth largest lender of Title I Loans, based on volume of loans originated, for the quarter ended June 30, 1996. Due to the variance in the estimates of the size of the conventional home improvement loan market, the Company is unable to

accurately estimate its competitive position in that market.

The Company depends largely on its Correspondents and Dealers for its originations of loans. The Company's competitors also seek to establish relationships with the Company's Correspondents and Dealers, none of whom is required to deal exclusively with the Company. The Company's future results may become more exposed to fluctuations in the volume and cost of its loans resulting from competition from other purchasers of such loans, market conditions and other factors.

PORTION OF PROCEEDS TO BENEFIT MAJORITY STOCKHOLDER

The Company intends to use a portion of the aggregate net proceeds of the Offering and the Common Stock Offering to repay Intercompany Debt owed to Mego Financial. See "Use of Proceeds."

ABSENCE OF PUBLIC MARKET FOR THE NOTES

Prior to the Offering, there has been no public market for the Notes. There can be no assurance that an active trading market for the Notes will develop or that, if developed, it will be sustained after the Offering or that it will be possible to resell the Notes at or above the initial public offering price. The market price of the Notes could be subject to significant fluctuations in response to the Company's operating results and other factors. In addition, the market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. Such fluctuations, and general economic and market conditions, may adversely affect the market price of the Notes. The Notes will not be listed on any securities exchange or quoted on The Nasdaq National Market. See "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Underwriting."

FACTORS INHIBITING TAKEOVER

As Mego Financial will continue to own in excess of 80% of the Common Stock after the Common Stock Offering, no takeover would be successful without its consent. Changes in the management or ownership of Mego Financial or a reduction in the number of shares owned by Mego Financial, however, could have an effect on the likelihood of a takeover. However, the Certificate of Incorporation provides that no additional shares of Common Stock may be issued that would reduce Mego Financial's interest below 80% without its written approval during the Eighty Percent Period. In addition, although the Certificate of Incorporation

provides for the issuance of one or more series of preferred stock from time to time, during the Eighty Percent Period no shares of any other class of capital stock may be issued without Mego Financial's written approval. Even in the event that at some later date Mego Financial's percentage ownership in the Company is significantly reduced, certain provisions of the Company's Certificate of Incorporation and Amended and Restated Bylaws (the "Bylaws") may be deemed to have anti-takeover effects and may delay, defer or prevent a takeover attempt that a stockholder might consider in its best interest. The Company's Certificate of Incorporation authorizes the Board to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock and to fix the number of shares of any series of preferred stock and the designation of any such series, without any vote or action by the Company's stockholders. Thus, the Board may authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of the Common Stock. In addition, the issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of the Company, since the terms of the preferred stock that might be issued could potentially prohibit the Company's consummation of any merger, reorganization, sale of substantially all of its assets, liquidation or other extraordinary corporate transaction without the approval of the holders of the outstanding shares of the preferred stock. Other provisions of the Company's Certificate of Incorporation and Bylaws (i) provide that special meetings of the stockholders may be called only by the Board of Directors or upon the written demand of the holders of not less than 30% of the votes entitled to be cast at a special meeting and (ii) establish certain advance notice procedures for nomination of candidates for election as directors by stockholders and for stockholder proposals to be considered at annual stockholders' meetings. Mego Financial could also vote to amend the Company's Certificate of Incorporation or Bylaws without the vote of any other holders of the Common Stock. Upon the occurrence of a Change of Control, the holders of the Notes will be entitled to require the Company to repurchase up to all outstanding Notes of the holders requiring such repurchase. This provision would further inhibit any takeover of the Company. See "Description of the Notes -- Change of Control."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Notes offered hereby, after deducting underwriting discounts and estimated expenses of the Offering, are estimated to be approximately $37.6 million. The net proceeds to the Company from the Common Stock Offering, based upon an assumed initial public offering price of $12.00 per share and after deducting underwriting discounts and estimated expenses of the Common Stock Offering, are estimated to be approximately $21.6 million ($25.0 million if the underwriters of the Common Stock Offering exercise their over-allotment option in full).

The Company currently intends to use approximately $12.8 million of the aggregate net proceeds received by the Company from the Offering and the Common Stock Offering to repay Intercompany Debt which does not bear interest and is due on demand and approximately $13.3 million to reduce the amounts outstanding under the Company's warehouse and revolving lines of credit, which currently bear interest at rates ranging from 1.0% to 2.0% over the prime rate and which expire in August 1997 and December 1997, respectively. The remaining net proceeds will be used to provide capital to originate and securitize loans. Pending such use, the net proceeds received by the Company will be invested in high quality, short term interest-bearing investment and deposit accounts.

CAPITALIZATION

The following table sets forth the capitalization of the Company at August 31, 1996, and as adjusted as of such date to give effect to (i) the sale of the Notes offered hereby (after deducting underwriting discounts and estimated expenses of the Offering), (ii) the sale of the 2,000,000 shares of Common Stock pursuant to the Common Stock Offering (at an assumed initial public offering price of $12.00 per share and after deducting underwriting discounts and estimated expenses of the Common Stock Offering) and (iii) the application of the net proceeds from the Offering and the Common Stock Offering as described under "Use of Proceeds." This table should be read in conjunction with the financial statements, the related notes and the other financial information appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	AUGUST 31, 1996	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
<S>	<C>	<C>
Debt:		
Warehouse line of credit	$ 3,265	$ --(1)
Revolving line of credit	10,000	--(1)
Other notes and contracts payable	932	932
% senior subordinated notes due 2001	--	40,000
Intercompany debt	12,813	--
Total debt	$27,010	$40,932
Stockholder's equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized; no shares issued and outstanding	$ --	$ --
Common stock, $.01 par value; 50,000,000 shares authorized; 10,000,000 shares issued and outstanding, actual and 12,000,000 shares issued and outstanding, as adjusted(2)	100	120
Additional paid-in capital	8,550	30,175
Retained earnings	9,051	9,051
Total stockholder's equity	17,701	39,346
Total capitalization	$44,711	$80,278

</TABLE>

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(1) The Company intends to use a portion of the net proceeds of the Offering and the Common Stock Offering to reduce the amounts outstanding under these lines of credit. Such lines of credit may remain available for future use.
(2) Does not include 925,000 shares of Common Stock reserved for issuance upon the exercise of stock options available to be granted under the Company's

Stock Option Plan or 300,000 shares of Common Stock issuable pursuant to the underwriters' over-allotment option in the Common Stock Offering. See "Management -- Company Stock Option Plan" and "Underwriting."

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PRO FORMA SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the year ended August 31, 1996 on a pro forma basis to give effect to the estimated pro forma interest expense of the Company's proposed offering of $40,000,000 of Notes at an assumed interest rate of 13% in lieu of the interest expense recorded by the Company under its existing notes and contracts payable without giving effect for any earnings factor on funds not applied to pay off existing debt.

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED AUGUST 31, 1996	
	ACTUAL	PRO FORMA
	(IN THOUSANDS EXCEPT PER SHARE AMOUNT)	
<S>	<C>	<C>
STATEMENT OF OPERATIONS DATA:		
Revenues:		
Interest income, net	$ 988	$ 2,104
Other revenues	24,039	24,039
Total revenues	25,027	26,143
Costs and expenses:		
Other interest	167	5,200
Other costs and expenses	13,705	13,705
Total costs and expenses	13,872	18,905
Income before income taxes	11,155	7,238
Income taxes	4,235	2,750
Net income	$ 6,920	$ 4,488
Net income per share		$ 0.45

</TABLE>

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SELECTED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected Statement of Operations data and Statement of Financial Condition data set forth below have been derived from the financial statements of the Company. The financial statements as of and for the years ended August 31, 1994, 1995 and 1996 have been audited by Deloitte & Touche LLP, independent auditors, and are included elsewhere in this Prospectus. The selected financial information set forth below should be read in conjunction with the financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,		
	1994(1)	1995	1996
<S>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:			
Revenues:			
Gain on sale of loans	$ 579	$12,233	$17,994
Net unrealized gain on mortgage related securities(2)	--	--	2,697
Loan servicing income	--	873	3,348
Interest income, net of interest expense of $107, $468 and			

$1,116	172	473	988
Total revenues	751	13,579	25,027
Costs and expenses:			
Provision for credit losses	96	864	1,510
Depreciation and amortization	136	403	394
Other interest	22	187	167
General and administrative:			
Payroll and benefits	975	3,611	5,031
Commissions and selling	13	552	2,013
Professional services	--	177	732
Servicing fees paid to affiliate	13	232	709
Management services by affiliate	442	690	671
FHA insurance	11	231	572
Other	554	713	2,073
Total costs and expenses	2,262	7,660	13,872
Income (loss) before income taxes(3)	(1,511)	5,919	11,155
Income taxes(3)	--	2,277	4,235
Net income (loss)	$(1,511)	$ 3,642	$ 6,920
Pro forma net income per share(4)			$ 0.60

	AS OF AUGUST 31,		AS OF AUGUST 31, 1996	
	1994(1)	1995	ACTUAL	AS ADJUSTED(5)
STATEMENT OF FINANCIAL CONDITION DATA:				
Loans held for sale, net	$1,463	$ 3,676	$ 4,610	$ 4,610
Excess servicing rights	904	14,483	12,121	12,121
Mortgage related securities(2)	--	--	22,944	22,944
Total assets	5,122	24,081	50,606	86,173
Total liabilities	983	13,300	32,905	46,827
Total stockholder's equity	4,139	10,781	17,701	39,346

	YEAR ENDED AUGUST 31,		
	1994(1)	1995	1996
OPERATING DATA:			
Loans originated	$8,164	$87,751	$139,367
Weighted average interest rate on loans originated	14.18%	14.55%	14.03%
Servicing portfolio (end of year):			
Company-owned loans	$1,471	$ 3,720	$ 4,698
Sold loans	6,555	88,566	209,491
Total	$8,026	$92,286	$214,189
Delinquency period(6):			
31-60 days past due	2.06%	2.58%	2.17%
61-90 days past due	0.48	0.73	0.85
91 days and over past due	0.36	0.99	4.53(7)
91 days and over past due, net of claims filed(8)	0.26	0.61	1.94
Claims filed with HUD(9)	0.10	0.38	2.59
Amount of FHA insurance available (end of year)	$ 813	$ 9,552	$ 21,205(10)
Amount of FHA insurance available as a percentage of loans serviced (end of year)	10.13%	10.35%	9.90%(10)
Ratio of earnings to fixed charges(11)	N/A	7.69x	2.29x(12)

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(1) The Company commenced originating loans in March 1994.
(2) Mortgage related securities consist of certificates representing interests

retained by the Company in securitization transactions.

(3) The results of operations of the Company are included in the consolidated federal income tax returns filed by Mego Financial, the Company's sole stockholder. Mego Financial allocates income taxes to the Company calculated on a separate return basis. See "Certain Transactions."

(4) Shares used in computing pro forma net income per share include the weighted average of common stock outstanding during the period. There were no common stock equivalents. Historical per share data is not included because the data is not considered relevant or indicative of the ongoing operations of the Company. Net income utilized in the calculation of pro forma net income per share has been reduced by an estimated pro forma interest expense in the amount of $1,544,000 and a related tax benefit of $587,000 based upon the application of a 13% interest rate to the Company's average balance of non-interest bearing debt payable to Mego Financial. Pro forma net income per share would change by $0.01 with a 1% change in the interest rate utilized.

(5) As adjusted to give effect to (i) the sale of the Notes offered hereby (after deducting underwriting discounts and estimated expenses of the Offering), (ii) the sale of the 2,000,000 shares of Common Stock pursuant to the Common Stock Offering (at an assumed initial public offering price of $12.00 per share and after deducting underwriting discounts and estimated expenses of the Common Stock Offering) and (iii) the application of the estimated net proceeds from the Offering and the Common Stock Offering as described under "Use of Proceeds."

(6) Represents the dollar amount of delinquent loans as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(7) During fiscal 1996, the processing and payment of claims filed with HUD were delayed. See "Business -- Loan Servicing."

(8) Represents the dollar amount of delinquent loans net of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(9) Represents the dollar amount of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(10) If all claims filed with HUD had been processed and paid as of period end, the amount of FHA insurance available would have been reduced to $16,215,000, which as a percentage of loans serviced would have been 7.77%.

(11) Earnings include pretax income, the portion of rents representative of the interest factor and interest on debt. Fixed charges include interest on indebtedness, prepaid commitment fees and the portion of rents representative of the interest factor.

(12) Ratio computed giving pro forma effect for the total additional interest expense resulting from the proposed issuance by the Company of the Notes at an assumed interest rate of 13% in lieu of the interest expense recorded by the Company under its existing lines of credit intended to be repaid with the proceeds of the Offering and the Common Stock Offering.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

GENERAL

The Company began originating loans on March 1, 1994 and, accordingly, the Company's results of operations for the years ended August 31, 1995 and 1996 include full years of operations, while results for the year ended August 31, 1994 include only six months of loan originations.

The Company recognizes revenue from the gain on sale of loans, interest income and servicing income. Interest income, net, represents the interest received on loans in the Company's portfolio prior to their sale, net of interest paid under its credit agreements. The Company continues to service all loans sold to date. Net loan servicing income represents servicing fee income and other ancillary fees received for servicing loans less the amortization of capitalized mortgage servicing rights. Mortgage servicing rights are amortized over the estimated net future servicing fee income.

The Company sells its loans through whole loan sales to third party purchasers, retaining the right to service the loans and to receive any amounts

in excess of the guaranteed yield to the purchasers. In addition, the Company has commenced the sale of loans through securitizations. Certain of the regular interests of the related securitizations are sold, with the interest only and residual class securities retained by the Company.

Gain on sale of loans includes the gain on sale of mortgage related securities and loans held for sale. The gain on sale of mortgage related securities is determined by an allocation of the cost of the securities based on the relative fair value of the securities sold and the securities retained. The Company generally retains an interest only strip security and residual interest security. The fair value of the interest only strip and residual interest security is the present value of the estimated cash flows to be received after considering the effects of estimated prepayments and credit losses, net of FHA insurance recoveries. The net unrealized gain on mortgage related securities represents the difference between the allocated cost basis of the securities and the estimated fair value.

As the holder of the residual securities, the Company is entitled to receive certain excess cash flows. These excess cash flows are calculated as the difference between (a) principal and interest paid by borrowers and (b) the sum of (i) pass-through interest and principal to be paid to the holders of the regular securities and interest only securities, (ii) trustee fees, (iii) third-party credit enhancement fees, (iv) servicing fees and (v) estimated loan pool losses. The Company's right to receive the excess cash flows is subject to the satisfaction of certain reserve requirements which are specific to each securitization and are used as a means of credit enhancement.

The Company carries interest only and residual securities at fair value. As such, the carrying value of these securities is affected by changes in market interest rates and prepayment and loss experiences of these and similar securities. The Company estimates the fair value of the interest only and residual securities utilizing prepayment and credit loss assumptions the Company believes to be appropriate for each particular securitization. To the Company's knowledge, there is no active market for the sale of these interest only and residual securities. The range of values attributable to the factors used in determining fair value is broad. Although the Company believes that it has made reasonable estimates of the fair value of the mortgage related securities, the rate of prepayments and default rates utilized are estimates, and actual experience may vary from its estimates.

The present value of expected net cash flows from the sale of loans is recorded at the time of sale as excess servicing rights and mortgage related securities. Excess servicing rights are amortized as a charge to income, as payments are received on the retained interest differential over the estimated life of the underlying loans. The expected cash flows used to determine the excess servicing rights asset and mortgage related securities have been reduced for potential losses, net of FHA insurance recoveries, under recourse provisions

of the sales agreements. The allowance for credit losses on loans sold with recourse represents the Company's estimate of losses to be incurred in connection with the recourse provisions of the sales agreements.

To determine the fair value of the mortgage servicing rights and excess servicing rights, the Company projects net cash flows expected to be received over the life of the loans. Such projections assume certain servicing costs, prepayment rates and credit losses. These assumptions are similar to those used by the Company to value the residual securities. As of August 31, 1996, mortgage servicing rights totaled $3.8 million, excess servicing rights totaled $12.1 million and mortgage related securities totaled $22.9 million.

There can be no assurance that the Company's estimates used to determine the fair value of mortgage and excess servicing rights will remain appropriate for the life of the loans. If actual loan prepayments or credit losses exceed the Company's estimates, the carrying value of the Company's mortgage and excess servicing rights may have to be written down through a charge against earnings. The Company will not write up such assets to reflect slower than expected prepayments, although slower prepayments may increase future earnings as the Company will receive cash flows in excess of those anticipated.

The Company discounts cash flows on its loan sales at the rate it believes an independent third-party purchaser would require as a rate of return. The cash flows were discounted to present value using discount rates which averaged 12.0% for the years ended August 31, 1994, 1995 and 1996. The Company has developed its assumptions based on experience with its own portfolio, available market data and ongoing consultation with its financial advisors.

Total costs and expenses consist primarily of general and administrative

expenses, depreciation and amortization, and provision for credit losses. PEC, a wholly-owned subsidiary of Mego Financial, provides loan servicing and management services to the Company the costs of which are charged to general and administrative expenses. See "Certain Transactions" and Note 14 of Notes to Financial Statements.

The Company continues to implement its business growth strategy through both product line and geographic diversification and expansion of its Correspondent and Dealer operations, in an effort to increase both loan origination volume and servicing volume. See "Business -- Business Strategy." Implementation of this strategy has increased the Company's total assets through growth in excess servicing rights, mortgage servicing assets and mortgage related securities and has been funded through increased borrowings. While this growth has increased the Company's revenues through increased gain on sales of loans, loan servicing income and net interest income, it has also increased the general and administrative expense and provision for credit losses associated with the growth in loans originated and serviced. Continued increases in the Company's total assets and increasing earnings can continue only so long as origination volumes continue to exceed paydowns of loans serviced and previous period origination volumes. Additionally, the fair value of mortgage related securities, mortgage servicing rights and excess servicing rights owned by the Company may be adversely affected by changes in the interest rate environment which could affect the discount rate and prepayment assumptions used to value the assets. Any such adverse change in assumptions could have a material adverse effect on the Company's results of operations and financial condition.

RESULTS OF OPERATIONS

Fiscal 1996 Compared to Fiscal 1995

The Company originated $139.4 million of loans during fiscal 1996 compared to $87.8 million of loans during fiscal 1995, an increase of 58.8%. The increase is a result of the overall growth in the Company's business, including an increase in the number of active Correspondents and Dealers and an increase in the number of states served. At August 31, 1996, the Company had approximately 310 active Correspondents and 435 active Dealers, compared to approximately 150 active Correspondents and 170 active Dealers at August 31, 1995. Of the $139.4 million of loans originated in fiscal 1996, $11.6 million were Conventional Loans. The Company did not originate Conventional Loans in fiscal 1995.

The following table sets forth certain data regarding loans originated by the Company during fiscal 1995 and 1996.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,			
	1995		1996	
<S>	<C>	<C>	<C>	<C>
Principal amount of loans:				
Correspondents:				
Title I	$63,792,680	72.7%	$ 82,596,197	59.3%
Conventional	--	--	11,582,108	8.3
Total Correspondent	63,792,680	72.7	94,178,305	67.6
Dealers -- Title I	23,957,829	27.3	45,188,721	32.4
Total	$87,750,509	100.0%	$139,367,026	100.0%
Number of loans:				
Correspondents:				
Title I	3,437	59.1%	4,382	50.9%
Conventional	--	--	392	4.6
Total Correspondent	3,437	59.1	4,774	55.5
Dealers -- Title I	2,381	40.9	3,836	44.5
Total	5,818	100.0%	8,610	100.0%

</TABLE>

See Notes 2 and 5 of Notes to Financial Statements.

Total revenues increased 84.3% to $25.0 million for fiscal 1996 from $13.6

million for fiscal 1995. The increase was primarily the result of the increased volume of loans originated and the sale of such loans. The following table sets forth the principal balance of loans sold or securitized and related gain on sale data for fiscal 1995 and 1996.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,	
	1995	1996
	(IN THOUSANDS)	
<S>	<C>	<C>
Principal amount of loans sold:		
Title I	$85,363	$127,414
Conventional	--	10,494
Total	$85,363	$137,908
Gain on sale of loans	$12,233	$ 17,994
Net unrealized gain on mortgage related securities	--	2,697
Gain on sale of loans and unrealized gain on mortgage related securities	$12,233	$ 20,691
Gain on sale of loans as a percentage of principal balance of loans sold	14.3%	13.0%
Gain on sale of loans and unrealized gain on mortgage related securities as a percentage of principal balance of loans sold	14.3%	15.0%

</TABLE>

See Note 2 of Notes to Financial Statements.

Loan servicing income increased 283.5% to $3.3 million for fiscal 1996 from $873,000 for fiscal 1995. The increase was primarily the result of a 61.6% increase in the amount of loan sale activity in fiscal 1996 with the servicing rights retained by the Company, to $137.9 million for fiscal 1996 from $85.4 million for fiscal 1995.

Interest income on loans held for sale and mortgage related securities, net of interest expense, increased 108.9% to $988,000 during fiscal 1996 from $473,000 during fiscal 1995. The increase was primarily the result of the increase in the average size of the portfolio of loans held for sale, and the increased mortgage related securities portfolio.

The Company intends to consider strategies to mitigate the interest rate risks associated with the loan origination/warehousing function, funding its portfolio of mortgage related securities, excess servicing rights, mortgage servicing rights, and valuation of these assets. Implementation of interest rate risk management strategies may decrease spreads, decrease gain on sale of loans, or otherwise decrease revenues from that which might otherwise occur in a stable interest rate environment without such strategies in place. The Company intends to thoroughly analyze the cost of such strategies compared to the risks which would be mitigated prior to implementation of any strategy.

The provision for credit losses increased 74.8% to $1.5 million for fiscal 1996 from $864,000 for fiscal 1995. The increase in the provision was directly related to the increase in volume of loans originated in fiscal 1996 compared to fiscal 1995. The provision for credit losses is based upon periodic analysis of the portfolio, economic conditions and trends, historical credit loss experience, borrowers' ability to repay, collateral values, and estimated FHA insurance recoveries on loans originated and sold. As the Company increases its mix of Conventional Loan originations as compared to Title I Loan originations, the provision for credit losses as a percentage of loans originated can be expected to increase due to the increased credit risk associated with Conventional Loans. Servicing costs on a per loan basis may also increase as problem Conventional Loans may require greater costs to service.

Total general and administrative expenses increased 90.2% to $11.8 million for fiscal 1996 from $6.2 million for fiscal 1995. The increase was primarily a result of increased payroll related to the hiring of additional underwriting, loan processing, administrative, loan quality control and other personnel in contemplation of the expansion of the Company's business and costs related to the opening of additional offices.

Payroll and benefits expense increased 39.3% to $5.0 million for fiscal

1996 from $3.6 million for fiscal 1995. The number of employees increased from 105 as of fiscal year end 1995 to 170 as of fiscal year end 1996, due to increased staff necessary to support the business expansion and improve quality control.

Commissions and selling expenses increased 264.7% to $2.0 million for fiscal 1996 from $552,000 for fiscal 1995 while loan originations increased by $51.6 million from fiscal 1995 to 1996. The sales network expanded to substantially all states, adding new personnel and offices to further the loan origination growth strategy.

Professional services increased 313.6% to $732,000 for fiscal 1996 from $177,000 for fiscal 1995 due primarily to increased audit and legal services and consultation fees.

Servicing fees paid to affiliate increased 205.6% to $709,000 for fiscal 1996 from $232,000 for fiscal 1995. The increase was a result of the increase in the size of the loan portfolio serviced by PEC. Management services by affiliate decreased 2.9% to $671,000 for fiscal 1996 from $690,000 for fiscal 1995. These expenses represent services provided by PEC, including executive, accounting, legal, management information, data processing, human resources, advertising and promotional materials. During fiscal 1995 and 1996, the Company incurred interest expense to PEC of $5,000 and $29,000, respectively, which amounts were included in other interest expense. During fiscal 1995 and 1996, the Company paid PEC for developing certain computer programming, incurring costs of $36,000 and $56,000, respectively. See Note 14 of Notes to Financial Statements.

FHA insurance increased 147.6% to $572,000 for fiscal 1996 from $231,000 for fiscal 1995. The increase was primarily attributable to the increased volume of loan originations and loans serviced.

Other general and administrative expenses increased 190.7% to $2.1 million for fiscal 1996 from $713,000 for fiscal 1995 primarily due to increased expenses related to expansion of facilities and increased communications expense. The Company is enhancing its loan production systems. These enhancements are expected to cost approximately $50,000 and will be funded from the Company's normal operating cash flow. See "Business -- Loan Production Technology Systems."

Income before income taxes increased 88.5% to $11.2 million for fiscal 1996 from $5.9 million for fiscal 1995.

As a result of the foregoing, net income increased 90.0% to $6.9 million for fiscal 1996 from $3.6 million for fiscal 1995.

Fiscal 1995 Compared to Fiscal 1994

The Company commenced originating loans in March 1994. Total revenues increased 1,708.1% to $13.6 million for fiscal 1995 from $751,000 for fiscal 1994. The increase was primarily the result of the increased volume of loans originated and the sale of such loans. The Company originated $87.8 million of loans during fiscal 1995 compared to $8.2 million of loans during fiscal 1994, an increase of 974.9%. The increase was a result of the overall growth in Company's business. At August 31, 1995, the Company had approximately 150 active Correspondents and 170 active Dealers in 34 states, compared to approximately 14 active Correspondents and 30 active Dealers in 14 states at August 31, 1994.

The following table sets forth certain data regarding Title I Loans originated by the Company during fiscal 1994 and 1995.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,			
	1994		1995	
<S>	<C>	<C>	<C>	<C>
Principal amount of loans:				
Correspondents	$5,251,647	64.3%	$63,792,680	72.7%
Dealers	1,492,318	18.3	23,957,829	27.3
Bulk purchase	1,420,150	17.4	--	--
Total	$8,164,115	100.0%	$87,750,509	100.0%
Number of loans:				
Correspondents	338	47.4%	3,437	59.1%
Dealers	164	23.0	2,381	40.9

Bulk purchase	211	29.6	--	--
Total	713	100.0%	5,818	100.0%

</TABLE>

The Company sold $85.4 million in principal balance of loans during fiscal 1995, recognizing a gain on sale of loans of $12.2 million. The Company sold $6.6 million in principal balance of loans during fiscal 1994 recognizing a gain on sale of loans of $579,000. As a percentage of loans sold, gain on sale of loans was 14.3% during fiscal 1995 compared to 8.8% during fiscal 1994. The increase in gain on sale was primarily a result of increased volume of loans sold and a wider differential between the stated interest rate on the loans and the yield to purchasers. The weighted average gross excess spread on sold loans was 5.6% and 6.2% for fiscal 1994 and 1995, respectively. The weighted average discount rate used in the determination of the gain on sale for both periods was 12%.

Loan servicing income was $873,000 during fiscal 1995. This income was the result of the sale of $85.4 million of Title I Loans, with the right to service the loans being retained by the Company. The Company had no loan servicing income in fiscal 1994 because the Company did not sell any loans until August 31, 1994.

Interest income, net of interest expense, increased 175.0% to $473,000 during fiscal 1995 from $172,000 during fiscal 1994. The increase was primarily the result of the growth in the size of the portfolio of loans held for sale of 151.3% to $3.7 million at August 31, 1995 from $1.5 million at August 31, 1994.

The provision for credit losses increased 800.0% to $864,000 for fiscal 1995 from $96,000 for fiscal 1994 due to increased loan originations. Provision for credit losses relating to unsold loans is recorded as expense in amounts sufficient to maintain the allowance at a level considered adequate to provide for anticipated losses resulting from liquidation of outstanding loans. The provision for credit losses is based upon periodic analysis of the portfolio, economic conditions and trends, historical credit loss experience, borrowers' ability to repay, collateral values, and estimated FHA insurance recoveries on Title I Loans.

Depreciation and amortization expense increased 196.3% to $403,000 for fiscal 1995 from $136,000 for fiscal 1994 as a result of the purchase of additional equipment, the expansion of the Company's facilities and additional software development costs.

Other interest expense increased 750.0% to $187,000 for fiscal 1995 from $22,000 for fiscal 1994 as a result of increased capitalized lease obligations.

Total general and administrative expenses increased 209.1% to $6.2 million for fiscal 1995 from $2.0 million for fiscal 1994. The increase was primarily a result of increased payroll related to the hiring of additional personnel in contemplation of the expansion and projected growth of the Company's business and costs related to the opening of additional offices. Commissions and selling expenses increased to $552,000 for fiscal 1995 from $13,000 for fiscal 1994 due to the expansion of the sales network and facilities to support increased loan origination growth. Included in general and administrative expenses were servicing fees paid to PEC in the amount of $13,000 and $232,000 for fiscal 1994 and 1995, respectively, and management fees paid to PEC in the amount of $442,000 and $690,000 for fiscal 1994 and 1995, respectively. See Note 14 of Notes to Financial Statements. FHA insurance expense increased to $231,000 for fiscal 1995 from $11,000 for fiscal 1994 due to increased volume of Title I Loan originations.

Income (loss) before income taxes increased to income of $5.9 million for fiscal 1995 from a loss of $1.5 million for its six months of operations in fiscal 1994.

Effective September 1, 1994, the Company adopted SFAS No. 122 which requires that a mortgage banking enterprise recognize as separate assets the rights to service mortgage loans for others, regardless of how those servicing rights are acquired. The effect of adopting SFAS No. 122 on the Company's financial statements was to increase income before income taxes by $1.1 million for fiscal 1995.

As a result of the foregoing, net income (loss) increased to net income of $3.6 million for fiscal 1995 from a net loss of $1.5 million for fiscal 1994.

FINANCIAL CONDITION

August 31, 1996 Compared to August 31, 1995

Cash decreased 41.1% to $443,000 at August 31, 1996 from $752,000 at August 31, 1995 primarily as a result of the timing of loan originations, sales, and borrowings.

Restricted cash deposits increased 76.7% to $4.5 million at August 31, 1996 from $2.5 million at August 31, 1995 due to increased volume of loans serviced for others pursuant to agreements which restrict a small percentage of cash relative to the volume of loans serviced, as well as loan payments collected from borrowers.

Loans held for sale, net increased 25.4% to $4.6 million at August 31, 1996 from $3.7 million at August 31, 1995 primarily as a result of increased loan originations from $87.8 million for fiscal 1995 to $139.4 million for fiscal 1996, and the timing of loan sales.

Excess servicing rights decreased 16.3% to $12.1 million at August 31, 1996 from $14.5 million at August 31, 1995. Excess servicing rights are calculated using prepayment, default and interest rate assumptions that the Company believes market participants would use for similar rights. The Company believes that the excess servicing rights recognized at the time of sale do not exceed the amount that would be received if such rights were sold at fair market value in the marketplace. The decrease in excess servicing rights was primarily a result of loans sold with excess servicing rights recognized which were reacquired and included in the fiscal 1996 securitizations as well as normal amortization of such excess servicing rights. The excess cash flow created through securitization which had been recognized as excess servicing rights on loans reacquired and securitized are included in the cost basis of the mortgage related securities.

Mortgage related securities were $22.9 million at August 31, 1996 as a result of the Company's securitization transactions during fiscal 1996. There was no corresponding asset at August 31, 1995. See Note 2 of Notes to Financial Statements.

Mortgage servicing rights increased 255.7% to $3.8 million at August 31, 1996 from $1.1 million at August 31, 1995 as a result of additional sales of mortgage originations and the resulting increase in sales of loans serviced from $85.4 million during fiscal 1995 to $137.9 million during fiscal 1996.

Property and equipment, net, increased 101.6% to $865,000 at August 31, 1996 from $429,000 at August 31, 1995 due to increased purchases of office equipment related to facility expansion.

Notes and contracts payable increased 873.7% to $14.2 million at August 31, 1996 from $1.5 million at August 31, 1995 due to increased levels of mortgage servicing rights and mortgage related securities created through loan securitization which were available for financing to meet the Company's cash requirements. The Company has a $10.0 million revolving facility for the financing of mortgage related securities.

Accounts payable and accrued liabilities increased 81.6% to $4.1 million at August 31, 1996 from $2.2 million at August 31, 1995, primarily as a result of increases in accrued payroll, interest and other unpaid operational costs.

Allowances for credit losses and for loans sold with recourse increased slightly by 3.8% to $920,000 at August 31, 1996 from $886,000 at August 31, 1995. Loans sold with recourse which were reacquired and included in the 1996 securitizations decreased the need for this allowance while increased loan sales increased the allowance requirements. Recourse to the Company on sales of loans is governed by the agreements between the purchasers and the Company. The allowance for credit losses on loans sold with recourse represents the Company's estimate of its probable future credit losses to be incurred over the lives of the loans considering estimated future FHA insurance recoveries on Title I Loans. No allowance for credit losses on loans sold with recourse is established on loans sold through securitizations, as the Company has no recourse obligation under those securitization agreements. Estimated credit losses on loans sold through securitizations are considered in the Company's valuation of its residual interest securities.

Due to parent company increased 41.9% to $12.0 million at August 31, 1996 from $8.5 million at August 31, 1995. The increase was primarily attributable to the increase in the federal tax provision owed to Mego Financial as a result of the filing of a consolidated federal tax return.

Stockholder's equity increased 64.2% to $17.7 million at August 31, 1996 from $10.8 million at August 31, 1995 as a result of net income of $6.9 million during fiscal 1996.

August 31, 1995 Compared to August 31, 1994

Cash decreased 8.7% to $752,000 at August 31, 1995 from $824,000 at August 31, 1994 primarily as a result of the timing of loan originations, sales and borrowings.

Restricted cash deposits were $2.5 million at August 31, 1995 due to activity on loans serviced for others pursuant to agreements which restrict a small percentage of cash relative to the volume of loans serviced, as well as loan payments collected from borrowers. There was no corresponding asset at August 31, 1994.

Loans held for sale, net, increased 151.3% to $3.7 million at August 31, 1995 from $1.5 million at August 31, 1994 primarily as a result of timing of loan sales and growth in loan originations.

Excess servicing rights increased 1,502.1% to $14.5 million at August 31, 1995 from $904,000 at August 31, 1994. Excess servicing rights are calculated using prepayment, default and interest rate assumptions that the Company believes market participants would use for similar rights. The Company believes that the excess servicing rights recognized at the time of sale do not exceed the amount that would be received if such rights were sold at fair market value in the marketplace. The increase in excess servicing rights was primarily a result of increases in loans sold with excess servicing rights.

Mortgage servicing rights were $1.1 million at August 31, 1995 as a result of sales of loans which resulted in an increase in the principal balance of sold loans serviced and implementation of SFAS No. 122. There was no corresponding asset at August 31, 1994.

Notes and contracts payable increased 128.9% to $1.5 million at August 31, 1995 from $637,000 at August 31, 1994 due to increased borrowings under the Company's warehouse line of credit and the timing of loan sales.

Accounts payable and accrued liabilities increased 699.6% to $2.2 million at August 31, 1995 from $280,000 at August 31, 1994, primarily as a result of increases in accrued payroll, interest and other operational costs, due to expansion and growth of the Company.

Allowances for credit losses and for loans sold with recourse increased to $886,000 at August 31, 1995 from $66,000 at August 31, 1994, primarily due to increased loans held for sale and loans sold under recourse provisions. Recourse to the Company on sales of loans is governed by the agreements between the purchasers and the Company. The allowance for credit losses on loans sold with recourse represents the Company's estimate of its probable future credit losses to be incurred over the lives of the loans, considering estimated future FHA insurance recoveries on Title I Loans.

Due to parent company was $8.5 million at August 31, 1995. There was no corresponding liability at August 31, 1994. Advances from Mego Financial plus income tax provisions owed to Mego Financial were the primary components of this liability. See Note 14 of Notes to Financial Statements.

Stockholder's equity increased 160.5% to $10.8 million at August 31, 1995 from $4.1 million at August 31, 1994 as a result of net income of $3.6 million during fiscal 1995, compared to a net loss of $1.5 million in 1994.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash of $443,000 at August 31, 1996 compared to cash of $752,000 at August 31, 1995.

The Company's cash requirements arise from loan originations, payments of operating and interest expenses and deposits to reserve accounts related to loan sale transactions. Loan originations are initially funded principally through the Company's $20.0 million warehouse line of credit pending the sale of loans in the secondary market. Substantially all of the loans originated by the Company are sold. Net cash used in the Company's operating activities for the years ended August 31, 1995 and 1996 was approximately $11.8 million and $15.3 million, respectively. This use was funded primarily from the reinvestment of proceeds from the sale of loans in the secondary market totaling approximately $85.0 million and $135.5 million for the years ended August 31, 1995 and 1996, respectively. The loan sale transactions required the subordination of certain

cash flows payable to the Company to the payment of scheduled principal and interest due to the loan purchasers. In connection with certain of such sale transactions, a portion of amounts payable to the Company from the excess interest spread is required to be maintained in a reserve account to the extent of the subordination requirements. The subordination requirements generally provide that the excess interest spread is payable to the reserve account until a specified percentage of the principal balances of the sold loans is accumulated therein.

Excess interest spread payable to the Company is subject to being utilized first to replenish cash paid from the reserve account to fund shortfalls in collections of interest from borrowers who default on the payments on the loans until the Company's deposits into the reserve account equal the specified percentage. The excess interest required to be deposited and maintained in the respective reserve accounts is not available to support the cash flow requirements of the Company. At August 31, 1996, amounts on deposit in such reserve accounts totaled $4.5 million.

Adequate credit facilities and other sources of funding, including the ability of the Company to sell loans in the secondary market, are essential for the continuation of the Company's loan origination operations. At August 31, 1996, the Company had a $20.0 million warehouse line of credit (the "Warehouse Line") for the financing of loan originations which expires in August 1997. At August 31, 1996, $3.3 million was outstanding under the Warehouse Line and $16.7 million was available. The Warehouse Line bears interest at the prime rate plus 1.0% per year and is secured by loans prior to sale. The agreement with the lender requires the Company to maintain a minimum tangible net worth of $12.5 million plus 50% of the Company's cumulative

net income after May 1, 1996, and a minimum level of profitability of at least $500,000 per rolling six month period. In addition, the Company had a $10.0 million revolving credit facility from the same lender, with respect to which $10.0 million was outstanding on that date. This facility was secured by a pledge of the Company's excess servicing rights and the interest only and residual class certificates ("Certificates") relating to securitizations carried as "Mortgage related securities" on the Company's statements of financial condition, payable to the Company pursuant to its securitization agreements. The revolving loan has an 18-month revolving credit period followed by a 30-month amortization period, and requires the Company to maintain a minimum tangible net worth of $12.5 million plus 50% of the Company's cumulative net income after May 1, 1996, and a minimum level of profitability of at least $500,000 per rolling six month period. Borrowings under the revolving loan cannot exceed the lesser of (i) 40% of the Company's excess servicing rights and Certificates or (ii) six times the aggregate of the excess servicing rights and Certificate payments actually received by the Company over the most recent three-month period. While the Company believes that it will be able to maintain its existing credit facilities and obtain replacement financing as its credit arrangements mature and additional financing, if necessary, there can be no assurance that such financing will be available on favorable terms, or at all.

From time to time, the Company has sold loans through whole loan sales. In August 1994, the Company entered into an agreement with a bank pursuant to which an aggregate of $38.3 million in principal amount of loans had been sold at December 31, 1995, for an amount equal to their remaining principal balance and accrued interest. Pursuant to the agreement, the purchaser is entitled to receive interest at a rate equal to the sum of 187.5 basis points and the yield paid on four-year Federal Government Treasury obligations at the time of the sale. The Company retained the right to service the loans and the right to receive the difference (the "Excess Interest") between the sold loans' stated interest rate and the yield to the purchaser. The Company is required to maintain a reserve account equal to 1.0% of the declining principal balance of the loans sold pursuant to the agreement funded from the Excess Interest received by the Company less its servicing fee to fund shortfalls in collections from borrowers who default in the payment of principal or interest.

In April 1995, the Company entered into a continuing agreement with a financial institution pursuant to which an aggregate of approximately $175.8 million in principal amount of loans had been sold at August 31, 1996 for an amount equal to their remaining principal balances. Pursuant to the agreement, the purchaser is entitled to receive interest at a variable rate equal to the sum of 200 basis points and the one-month LIBOR rate as in effect from time to time. The Company retained the right to service the loans and the right to receive the Excess Interest. The Company is required to maintain a reserve account equal to 2.5% of the proceeds received by the Company from the sale of loans pursuant to the agreement plus the Excess Interest received by the Company less its servicing fee to fund shortfalls in collections from borrowers who

default in the payment of principal or interest. In May 1995 and June 1995, the Company reacquired an aggregate of approximately $25.0 million of such Title I Loans for an amount equal to their remaining principal balance, which were sold to a financial institution. In March 1996 and August 1996, the Company reacquired an additional $77.7 million and $36.2 million, respectively, of the Title I Loans in connection with its first two securitization transactions. In September 1996, the Company entered into a repurchase agreement with the financial institution pursuant to which the Company pledged the interest only certificates from its two 1996 securitizations in exchange for a $3.0 million advance. In November 1996, the Company entered into an agreement with the same financial institution, providing for the purchase of up to $2.0 billion of loans over a five-year period. Pursuant to the agreement, Mego Financial issued to the financial institution four-year warrants to purchase 1,000,000 shares of Mego Financial's common stock at an exercise price of $7.125 per share. The agreement also provides (i) that so long as the aggregate principal balance of loans purchased by the financial institution and not resold to third parties exceeds $100.0 million, the financial institution shall not be obligated to purchase, and the Company shall not be obligated to sell, loans under the agreement and (ii) that the percentage of conventional loans owned by the financial institution at any one time and acquired pursuant to the agreement shall not exceed 65% of the total amount of loans owned by the financial institution at such time and acquired pursuant to the agreement. The value of the warrants, estimated at $3.0 million (0.15% of the commitment amount) as of the commitment date, will be charged to the Company and amortized as the commitment for the purchase of loans is utilized. The financial institution has also committed to provide the Company with a separate one-year facility of up to $11.0 million, less any amounts

advanced under the repurchase agreement, for the financing of the interest only and residual certificates from future securitizations.

In May 1995, the Company entered into an agreement with a bank pursuant to which an aggregate of $25.0 million in principal amount of loans had been sold at June 30, 1995 for an amount equal to their remaining principal balance. Pursuant to the agreement, the purchaser is entitled to receive interest at a rate equal to the sum of 190 basis points and the yield paid on four-year Federal Government Treasury obligations at the time of the sale. The Company retained the right to service the loans and the right to receive the Excess Interest. The agreement requires the Company to maintain a reserve account equal to 1.0% of the declining principal balance of the loans sold pursuant to the agreement funded from the Excess Interest received by the Company less its servicing fee to fund shortfalls in collections from borrowers who default in the payment of principal or interest.

In furtherance of the Company's strategy to sell loans through securitizations, in March 1996 and August 1996, the Company completed its first two securitizations pursuant to which it sold pools of $84.2 million and $48.8 million, respectively, of Title I Loans. The Company previously reacquired at par $77.7 million and $36.2 million of such loans, respectively. Pursuant to these securitizations, pass-through certificates evidencing interests in the pools of loans were sold in a public offering. The Company continues to subservice the sold loans and is entitled to receive from payments in respect of interest on the sold loans a servicing fee equal to 1.25% of the balance of each loan with respect to the March transaction and 1.0% with respect to the August transaction. In addition, with respect to both transactions, the Company received certificates (carried as "Mortgage related securities" on the Company's statement of financial condition), representing the interest differential, after payment of servicing and other fees, between the interest paid by the obligors of the sold loans and the yield on the sold certificates. The Company may be required to repurchase loans that do not conform to the representations and warranties made by the Company in the securitization agreements.

During fiscal 1995 and fiscal 1996, the Company used cash of $11.8 million and $15.3 million, respectively, in operating activities. During fiscal 1995 and fiscal 1996, the Company provided cash of $12.0 million and $15.6 million, respectively, in financing activities. During fiscal 1995 and fiscal 1996, the Company used cash of $274,000 and $637,000, respectively, in investing activities, which was substantially expended for office equipment and furnishings and data processing equipment.

The Company believes that funds from operations and financing activities, borrowings under its existing credit facilities and the net proceeds from the Offering and the Common Stock Offering will be sufficient to satisfy its contemplated cash requirements for at least twelve months following the consummation of the Offering.

POSSIBLE TERMINATION OF SERVICING RIGHTS

As described in Note 8 of Notes to Financial Statements, the pooling and servicing agreements relating to the Company's securitization transactions contain provisions with respect to the maximum permitted loan delinquency rates and loan default rates, which, if exceeded, would allow the termination of the Company's right to service the related loans. At September 30, 1996, the default rates on the pool of loans sold in the March 1996 securitization transaction exceeded the permitted limit set forth in the related pooling and servicing agreement. Accordingly, this condition could result in the termination of the Company's servicing rights with respect to that pool of loans by the trustee, the master servicer or the insurance company providing credit enhancement for that transaction. The mortgage servicing rights on this pool of loans were approximately $1.4 million at August 31, 1996. Although the insurance company has indicated that it has, and to its knowledge, the trustee and the master servicer have, no present intention to terminate the Company's servicing rights, no assurance can be given that one or more of such parties will not exercise its right to terminate. In the event of such termination, there would be an adverse effect on the valuation of the Company's mortgage servicing rights and the results of operations in the amount of the mortgage servicing rights ($1.4 million before tax and $870,000 after tax at August 31, 1996) on the date of termination. The Company has taken certain steps designed to reduce the default rates on this pool of loans as well as its other

loans. These steps include the hiring of a divisional manager in charge of collection of delinquent loans, the hiring of additional personnel to collect delinquent accounts, the assignment of additional personnel specifically assigned to the collection of this pool of loans and the renegotiation of the terms of certain delinquent accounts in this pool of loans within the guidelines promulgated by HUD.

EFFECTS OF CHANGING PRICES AND INFLATION

The Company's operations are sensitive to increases in interest rates and to inflation. Increased borrowing costs resulting from increases in interest rates may not be immediately recoverable from prospective purchasers. The Company's loans held for sale consist primarily of fixed-rate long term installment contracts that do not increase or decrease as a result of changes in interest rates charged to the Company. In addition, delinquency and loss exposure may be affected by changes in the national economy. See Note 4 of Notes to Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

At August 31, 1995, effective September 1, 1994, the Company adopted SFAS No. 122, which requires that a mortgage banking enterprise recognize as separate assets the rights to service mortgage loans for others, regardless of how those servicing rights are acquired. The effect of adopting SFAS No. 122 on the Company's financial statements was to increase income before income taxes by $1.1 million for the year ended August 31, 1995. The fair value of capitalized mortgage servicing rights was estimated by taking the present value of expected net cash flows from mortgage servicing using assumptions the Company believes market participants would use in their estimates of future servicing income and expense, including assumptions about prepayment, default and interest rates. Capitalized mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. The estimate of fair value was based on a 100 basis points per year servicing fee, reduced by estimated costs of servicing, and using a discount rate of 12% in 1995. The Company has developed its assumptions based on experience with its own portfolio, available market data and ongoing consultation with its investment bankers.

The Financial Accounting Standards Board (the "FASB") has issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"). SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995. The Company has not determined the effect upon adoption on its results of operation or financial condition.

The FASB has issued Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which establishes financial accounting and reporting standards for stock-based employee compensation plans and for transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. SFAS No. 123 is generally effective for fiscal years beginning after December 15, 1995. The Company intends to provide the pro forma and other additional disclosures about stock-based employee compensation plans in its 1997 financial statements as required by SFAS No. 123.

SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 125") was issued by the FASB in June 1996. SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It requires that liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets be initially measured at fair value. SFAS No. 125 also requires that servicing assets be measured by allocating the carrying amount between the assets sold and retained interests based on their relative fair values at the date of transfer. Additionally, this statement requires that the servicing assets and liabilities be subsequently measured by (a) amortization in proportion to and over the period of estimated net servicing income and (b) assessment for asset impairment or increased obligation based on their fair values. The statement will require that the Company's existing and future excess servicing receivables be measured at fair market value and be reclassified as interest only strip securities and accounted

for in accordance with SFAS No. 115. As required by the statement, the Company will adopt the new requirements effective January 1, 1997. It is not anticipated that upon implementation, the statement will have any material impact on the financial statements of the Company, as the book value of the Company's excess servicing rights and mortgage related securities approximates fair value.

SEASONALITY

Home improvement loan volume tracks the seasonality of home improvement contract work. Volume tends to build during the spring and early summer months, particularly with regard to pool installations. A decline is typically experienced in late summer and early fall until temperatures begin to drop. This change in seasons precipitates the need for new siding, window and insulation contracts. Peak volume is experienced in November and early December and declines dramatically from the holiday season through the winter months. Debt consolidation and home equity loan volume are not impacted by seasonal climate changes and, with the exclusion of the holiday season, tend to be stable throughout the year.

BUSINESS

GENERAL

The Company is a specialized consumer finance company that originates, purchases, sells and services consumer loans consisting primarily of home improvement loans secured by liens on the improved property. Through its network of Correspondents and Dealers, the Company initially originated only Title I Loans. The Title I program provides for insurance of 90% of the principal balance of the loan, and certain other costs. The Company began offering Conventional Loans through its Correspondents in May 1996. For the three months ended August 31, 1996, such loans totalled $11.2 million which represents 22.5% of the Company's total loan originations for that quarter.

The Company's borrowers are individuals who own their home and have appropriate verifiable income but may have limited access to traditional financing sources due to insufficient home equity, limited credit history or high ratios of debt service to income. These borrowers require or seek a high degree of personalized service and prompt response to their loan applications. As a result, the Company's borrowers generally are not averse to paying higher interest rates that the Company charges for its loan programs as compared to the interest rates charged by banks and other traditional financial institutions. The Company has developed a proprietary credit index profile that includes as a significant component the credit evaluation score methodology developed by Fair, Isaac and Company to classify borrowers on the basis of likely future performance. The other components of the Company's scoring system include debt to income ratio, employment history and residence stability. The Company charges

varying rates of interest based upon the borrower's credit profile and income. The Company quotes higher interest rates for those borrowers exhibiting a higher degree of risk. The borrowers' credit standing and/or lack of collateral may preclude them from obtaining alternative funding. For the year ended August 31, 1996, the loans originated by the Company had a weighted average interest rate of 14.03%.

The credit evaluation methodology developed by Fair, Isaac and Company takes into consideration a number of factors in the borrower's credit history. These include, but are not limited to, (i) the length of time the borrower's credit history has been on file with the respective credit reporting agency, (ii) the number of open credit accounts, (iii) the amount of open revolving credit availability, (iv) the payment history on the open credit accounts and (v) the number of recent inquiries for the borrower's credit file which may indicate additional open credit accounts not yet on file. Based on this information Fair, Isaac and Company will assign a score to the borrower's credit file which is updated periodically. Based on their statistical analysis, this score will indicate the percentage of borrowers in that score range expected to become 90 days delinquent on an additional loan. The score ascribed by Fair, Isaac and Company weighs heavily in the Company's approval process; however its effects, whether positive or negative, can be mitigated by the other factors described above.

The Company's loan originations increased to $139.4 million during the fiscal year ended August 31, 1996 from $87.8 million during the fiscal year ended August 31, 1995 and $8.2 million during the six months in which it originated loans in the fiscal year ended August 31, 1994. The Company's revenues increased to $25.0 million for the year ended August 31, 1996 from $13.6 million for the fiscal year ended August 31, 1995 and $751,000 for the fiscal year ended August 31, 1994. For the year ended August 31, 1996, the Company had net income of $6.9 million compared to $3.6 million for the year ended August 31, 1995. As a result of the substantial growth in loan originations, the Company has operated since March 1994, and expects to continue to operate for the foreseeable future, on a negative cash flow basis.

The Company sells substantially all the loans it originates through either whole loan sales to third party institutional purchasers or securitizations at a yield below the stated interest rate on the loans, retaining the right to service the loans and receive any amounts in excess of the guaranteed yield to the purchasers. The Company completed its first two securitizations of Title I Loans in March and August 1996 totalling $133.0 million and expects to sell a substantial portion of its loan production through securitizations in the future. At August 31, 1996, the Company serviced $209.5 million of loans it had sold, and $4.7 million of loans it owned.

HOME IMPROVEMENT LOAN INDUSTRY

According to data released by the Commerce Department's Bureau of the Census, expenditures for home improvement and repairs of residential properties have exceeded $100.0 billion per year since 1992 with 1995 expenditures estimated at $112.6 billion. The Company targets the estimated $40.0 billion of those expenditures which are for owner-occupied single-family properties where improvements are performed by professional remodelers. As the costs of home improvements escalate, home owners are seeking financing as a means to improve their property and maintain and enhance its value. The National Association of Home Builders Economics Forecast in 1995 estimates that home improvement expenditures will exceed $200.0 billion by the year 2003. Two types of home improvement financing are available to borrowers, the Title I program administered by the FHA, which is authorized to partially insure qualified lending institutions against losses, and uninsured loans where the lender relies more heavily on the borrower's creditworthiness, debt capacity and the underlying collateral. Both types of loans are generally secured with a real estate mortgage lien on the property improved.

The conventional home improvement financing market continues to grow, as many homeowners have limited access to traditional financing sources due to insufficient home equity, limited credit history or high ratios of debt service to income. Conventional loan proceeds can be used for a variety of improvements such as large remodeling projects, both interior and exterior, kitchen and bath remodeling, room additions and in-ground swimming pools. Borrowers also have the opportunity to consolidate a portion of their outstanding debt in order to reduce their monthly debt service.

According to the FHA, the amount of single family Title I Loans originated has grown from $375.0 million during 1988 to $1.3 billion during 1995. Based on FHA data, the Company estimates that it had an 8.6% market share of the property improvement Title I loan market in calendar 1995. Out of approximately 3,100

lenders participating in the program in 1995, according to FHA data, the Company was the third largest originator of property improvement Title I Loans. Under Title I, the payment of approximately 90% of the principal balance of a loan is insured by the United States of America in the event of a payment default. The Title I program generally limits the maximum amount of the loan to $25,000 and restricts the type of eligible improvements and the use of the loan proceeds. Under Title I, only property improvement loans to finance the alteration, repair or improvement of existing single family, multifamily and non-residential structures are allowed. The FHA does not review individual loans at the time of approval. In the case of a Title I Loan less than $7,500, no equity is required in the property to be improved and the loan may be unsecured.

BUSINESS STRATEGY

The Company's strategic plan is to continue to expand its lending operations while maintaining its credit quality. The Company's strategies include: (i) offering new loan products ; (ii) expanding its existing network of Correspondents and Dealers; (iii) entering new geographic markets; (iv) realizing operational efficiencies through economies of scale; and (v) using securitizations to sell higher volumes of loans on more favorable terms. At August 31, 1996, the Company had developed a nationwide network of approximately 310 active Correspondents and approximately 435 active Dealers. The Company's Correspondents generally offer a wide variety of loans and its Dealers typically offer home improvement loans in conjunction with debt consolidation. By offering a more diversified product line, including Conventional Loans, and maintaining its high level of service, the Company has increased the loan production from its existing network of Correspondents. The Company anticipates that as it expands its lending operations, it will realize economies of scale thereby reducing its average loan origination costs and enhancing its profitability. In addition, the Company intends to continue to sell its loan production through securitizations as opportunities arise. Through access to securitization, the Company believes that it has the ability to sell higher volumes of loans on more favorable terms than in whole loan sales.

Product Extension and Expansion

The Company intends to continue to review its loan programs and introduce new loan products to meet the needs of its customers. The Company will also evaluate products or programs that it believes are

complementary to its current products for the purpose of enhancing revenue by leveraging and enhancing the Company's value to its existing network of Correspondents and Dealers. The Company believes that its introduction of new loan products will enhance its relationship with its Dealers and Correspondents and enable it to become a single source for their various financing needs. Since it commenced operations, the Company has originated Title I Loans from both its Dealers and Correspondents. In May 1996, the Company broadened these activities to include non-FHA insured home improvement loans and combination home improvement and debt consolidation loans. To date, these non-FHA insured loans have been originated solely through Correspondents. All of these loans, which permit loan amounts up to $60,000 with fixed rates and 20-year maturities, are secured by a lien, generally junior in priority, on the respective primary residence. The Company intends to offer pure debt consolidation loans in the first quarter of fiscal 1997. The Company also intends to offer non-FHA insured loans through its Dealer division in the first quarter of 1997 and to make direct debt consolidation loans to borrowers originated by the Dealer division in conjunction with home improvement financing.

Expansion of Correspondent Operations

The Company seeks to increase originations of loans from select Correspondents. The Company has expanded its product line to include Conventional Loans to meet the needs of its existing network of Correspondents. Prior to May 1996, the Company originated only Title I Loans. This limited its ability to attract the more sophisticated Correspondent that offered a multitude of loan products and, accordingly, limited the Company's market penetration. The Company began offering Conventional Loans to existing select Correspondents in May 1996. In order to maintain the Company's customer service excellence, the Company has gradually increased the number of Correspondents to which it has offered Conventional Loans. Since the Company commenced offering Conventional Loans, the loan production of the Company's Correspondent division has significantly increased. The Company believes that it is well positioned to expand this segment without any material increase in concentration or quality risks.

Expansion of Dealer Operations

The Company seeks to expand its Dealer network and maximize loan originations from its existing network by offering a variety of innovative products and providing consistent and prompt service at competitive prices. The Company will provide conventional products as well as its existing Title I product to its Dealers in order to meet the needs of the diverse borrower market. The Company targets Dealers that typically offer financing to their customers and attempts to retain and grow these relationships by providing superior customer service, personalized attention and prompt approvals and fundings. The Company has been unable to fully meet the needs of its Dealers because of Title I program limits on the amount and types of improvements which may be financed. The Company intends to meet the needs of its Dealers with new Conventional Loan programs. These programs allow for more expensive project financing such as in-ground swimming pools and substantial remodeling as well as financing for creditworthy borrowers with limited equity who are in need of debt consolidation and borrowers with marginal creditworthiness and substantial equity in their property. With this strategy, the Company believes it can achieve further market penetration of its existing Dealer network and gain new Dealers and market share in areas in which the Title I product is less successful because of its restrictions.

Nationwide Geographic Expansion

The Company intends to continue to expand its Correspondent and Dealer network on a nationwide basis and to enhance its value to its existing network. The Company's strategy involves (i) focusing on geographic areas that the Company currently underserves and (ii) tailoring the Company's loan programs to better serve its existing markets and loan sources.

Maximization of Flexibility in Loan Sales

The Company employs a two-pronged strategy of disposing of its loan originations primarily through securitizations and, to a lesser extent, through whole loan sales. By employing this dual strategy, the Company

has the flexibility to better manage its cash flow, diversify its exposure to the potential volatility of the capital markets and maximize the revenues associated with the gain on sale of loans given market conditions existing at the time of disposition. The Company has recently been approved by FNMA as a seller/servicer of Title I Loans, as a result of which the Company is eligible to sell such loans to FNMA on a servicing retained basis.

LOAN PRODUCTS

The Company originates Title I and Conventional Loans. Both types of loans are typically secured by a first or junior lien on the borrower's principal residence, although the Company occasionally originates and purchases unsecured loans with borrowers that have an excellent credit history. Borrowers use loan proceeds for a wide variety of home improvement projects, such as exterior/interior remodeling, structural additions, roofing and plumbing, as well as luxury items such as in-ground swimming pools, and for debt consolidation. The Company lends to borrowers of varying degrees of creditworthiness. See "Loan Processing and Underwriting."

Conventional Loans

A Conventional Loan is a non-insured home improvement or home equity loan typically undertaken to pay for a home improvement project, home improvement and debt consolidation combination or a debt consolidation. Substantially all of the Conventional Loans originated by the Company are secured by a first or junior mortgage lien on the borrower's principal residence. Underwriting for Conventional Loans varies according to the Company's evaluation of the borrower's credit risk and income stability as well as the underlying collateral. The Company will rely on the underlying collateral and equity in the property for borrowers judged to be greater credit risks. The Company targets the higher credit quality segment of borrowers. The Company has begun originating Conventional Loans through its Correspondent Division and plans to begin offering such loan products to its Dealer Division.

The Company has focused its Conventional Loan program on that segment of the marketplace with higher credit quality borrowers who may have limited equity in their residence after giving effect to the amount of senior liens. The portfolio of Conventional Loans generated through August 31, 1996 indicates on average that the borrowers have received an A grade under the Company's proprietary credit index profile, have an average debt-to-income ratio of 38% and the subject properties are 100% owner occupied. On average, the market value of the underlying property is $123,000 without added value from the respective home improvement work, the amount of senior liens of $107,000 and the loan size

is $28,500. Typically, there is not enough equity in the property to cover a junior lien in the event that a senior lender forecloses on the property. More than 99% of the loans comprising the Company's Conventional Loan portfolio are secured by junior liens.

Title I Loan Program

The National Housing Act of 1934 (the "Housing Act"), Sections 1 and 2(a), authorized the creation of the FHA and the Title I credit insurance program ("Title I"). Under the Housing Act, the FHA is authorized to insure qualified lending institutions against losses on certain types of loans, including loans to finance the alteration, repair or improvement of existing single family, multi-family and nonresidential real property structures. Under Title I, the payment of approximately 90% of the principal balance of a loan and certain other amounts is insured by the United States of America in the event of a payment default.

Title I and the regulations promulgated thereunder establish criteria regarding (i) who may originate, acquire, service and sell Title I Loans, (ii) Title I Loan eligibility of improvements and borrowers, (iii) the principal amounts and terms of and security for Title I Loans, (iv) the use and disbursement of loan proceeds, (v) verification of completion of improvements, (vi) the servicing of Title I Loans in default and (vii) the processing of claims for Title I insurance.

The principal amount of a secured Title I Loan may not exceed $25,000, in the case of a loan for the improvement of a single family structure, and $60,000, in the case of a loan for the improvement of a multi-family structure. Loans up to a maximum of $7,500 in principal amount may qualify as unsecured Title I Loans.

Title I Loans are required to bear fixed rates of interest and, with limited exceptions, be fully amortizing with equal weekly, bi-weekly, semi-monthly or monthly installment payments. Title I Loan terms may not be less than six months nor more than 240 months in the case of secured Title I Loans or 120 months in the case of unsecured Title I Loans. Subject to other federal and state regulations, the lender may establish the interest rate to be charged in its discretion.

Title I generally provides for two types of Title I Loans, direct loans ("Direct Title I Loans") and dealer loans ("Dealer Title I Loans"). Direct Title I Loans are made directly by a lender to the borrower and there is no participation in the loan process by the contractor, if any, performing the improvements. In the case of Dealer Title I Loans, the Dealer, a contractor performing the improvements, assists the borrower in obtaining the loan, contracts with the borrower to perform the improvements, executes a retail installment contract with the borrower and, upon completion of the improvements, assigns the retail installment contract to the Title I lender. Each Dealer must be approved by the Title I lender in accordance with HUD requirements. Direct Title I Loans are closed by the lender in its own name with the proceeds being disbursed directly to the borrower prior to completion of the improvements. The borrower is generally required to complete the improvements financed by a Direct Title I Loan within six months of receiving the proceeds. In the case of Dealer Title I Loans, the lender is required to obtain a completion certificate from the borrower certifying that the improvements have been completed prior to disbursing the proceeds to the Dealer.

The FHA charges a lender an annual fee equal to 50 basis points of the original principal balance of a loan for the life of the loan. A Title I lender or Title I sponsored lender is permitted to require the borrower to pay the insurance premium with respect to the loan. In general, the borrowers pay the insurance premiums with respect to Title I Loans originated through the Company's Correspondents but not with respect to Title I Loans originated through the Company's Dealers. Title I provides for the establishment of an insurance coverage reserve account for each lender. The amount of insurance coverage in a lender's reserve account is equal to 10% of the original principal amount of all Title I Loans originated or purchased and reported for insurance coverage by the lender less the amount of all insurance claims approved for payment. The amount of reimbursement to which a lender is entitled is limited to the amount of insurance coverage in the lender's reserve account.

LENDING OPERATIONS

The Company has two principal divisions for the origination of loans, the Correspondent Division and the Dealer Division. The Correspondent Division represents the Company's largest source of loan originations. Through its Correspondent Division, the Company originates loans through a nationwide

network of Correspondents including financial intermediaries, mortgage companies, commercial banks and savings and loan institutions. The Company typically originates loans from Correspondents on an individual loan basis, pursuant to which each loan is pre-approved by the Company and is purchased immediately after the closing. The Correspondent Division conducts operations from its headquarters in Atlanta, Georgia, with a vice president of operations responsible for underwriting and processing and five account executives supervised by the Vice President-National Marketing responsible for developing and maintaining relationships with Correspondents. At August 31, 1996, the Company had a network of approximately 310 active Correspondents.

In addition to purchasing individual Direct Title I Loans and Conventional Loans, from time to time the Correspondent Division purchases portfolios of loans from Correspondents. In March 1994, the Company purchased a portfolio of Direct Title I Loans originated by another financial institution, which consisted of 211 loans with an aggregate remaining principal balance of $1.4 million.

The Dealer Division originates Dealer Title I Loans through a network of Dealers, consisting of home improvement construction contractors approved by the Company, by acquiring individual retail installment contracts ("Installment Contracts") from Dealers. An Installment Contract is an agreement between the Dealer and the borrower pursuant to which the Dealer performs the improvements to the property and the borrower agrees to pay in installments the price of the improvements. Before entering into an Installment Contract with a borrower, the Dealer assists the borrower in submitting a loan application to the Company. If

the loan application is approved, the Dealer enters into an Installment Contract with the borrower, the Dealer assigns the Installment Contract to the Company upon completion of the home improvements and the Company, upon receipt of the requisite loan documentation (described below) and completion of a satisfactory telephonic interview with the borrower, pays the Dealer pursuant to the terms of the Installment Contract. The Dealer Division maintains 13 branch offices located in Montvale, New Jersey, Kansas City, Missouri, Las Vegas, Nevada, Austin, Texas, Oklahoma City, Oklahoma, Seattle, Washington, Waterford, Michigan, Columbus, Ohio, Elmhurst, Illinois, Philadelphia, Pennsylvania, Denver, Colorado, Woodbridge, Virginia and Bowie, Maryland through which it conducts its marketing to Dealers in the state in which the branch is located as well as certain contiguous states. The Dealer Division is operated with a vice president of operations responsible for loan processing and underwriting, two regional managers, and 13 field representatives supervised by the Vice President-National Marketing who are responsible for marketing to Dealers. At August 31, 1996, the Company had a network of approximately 435 active Dealers doing business in 32 states. The Company intends to commence offering Conventional Loans through its Dealer Division.

Correspondents and Dealers qualify to participate in the Company's programs only after a review by the Company's management of their reputations and expertise, including a review of references and financial statements, as well as a personal visit by one or more representatives of the Company. Title I requires the Company to reapprove its Dealers annually and to monitor the performance of those Correspondents that are sponsored by the Company. The Company's compliance function is performed by a director of compliance and loan administration, whose staff performs periodic reviews of portfolio loans and Correspondent and Dealer performance and may recommend to senior management the suspension of a Correspondent or a Dealer. The Company believes that its system of acquiring loans through a network of Correspondents and Dealers and processing such loans through a centralized loan processing facility has (i) assisted the Company in minimizing its level of capital investment and fixed overhead costs and (ii) assisted the Company in realizing certain economies of scale associated with evaluating and acquiring loans. The Company does not believe that the loss of any particular Correspondent or Dealer would have a material adverse effect upon the Company. See "Loan Processing and Underwriting."

The Company pays its Correspondents premiums on the loans it purchases based on the credit score of the borrower and the interest rate on the respective loan. Additional premiums are paid to Correspondents based on the volume of loans purchased from such Correspondents in a monthly period. During fiscal 1996 the Company originated $94.2 million of loans from Correspondents and paid total premiums of $2.8 million or 3.0% of such loans.

None of the Company's arrangements with its Dealers or Correspondents is on an exclusive basis. Each relationship is documented by either a Dealer Purchase Agreement or a Correspondent Purchase Agreement. Pursuant to a Dealer Purchase Agreement, the Company may purchase from a Dealer loans that comply with the Company's underwriting guidelines at a price acceptable to the Company. With respect to each loan purchased, the Dealer makes customary representations and

warranties regarding, among other things, the credit history of the borrower, the status of the loan and its lien priority if applicable, and agrees to indemnify the Company with respect to such representations and warranties. Pursuant to a Correspondent Purchase Agreement, the Company may purchase loans through a Correspondent, subject to receipt of specified documentation. The Correspondent makes customary representations and warranties regarding, among other things, the Correspondent's corporate status, as well as regulatory compliance, good title, enforceability and payments and advances of the loans to be purchased. The Correspondent covenants to, among other things, keep Company information confidential, provide supplementary information, maintain government approvals with respect to Title I Loans and to refrain from certain solicitations of the Company's borrowers. The Correspondent also agrees to indemnify the Company for misrepresentations or non-performance of its obligations.

The Company originates and acquires a limited variety of loan products, including: (i) fixed rate, secured Title I Loans, secured by single family residences, with terms and principal amounts ranging from 60 to 240 months and approximately $3,000 to $25,000, respectively; and (ii) fixed rate, unsecured Title I Loans with terms and principal amounts ranging from 36 to 120 months and approximately $2,500 to $7,500, respectively. As part of the Company's strategic plan, the Company has commenced originating non-FHA insured Conventional Loans utilizing its established network of Correspondents.

The following table sets forth certain data regarding loan applications processed and loans originated by the Company during the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,					
	1994		1995		1996	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total Loan Applications:						
Number processed	3,512		27,608		42,236	
Number approved	1,984		15,956		20,910	
Approval ratio	56.5%		57.8%		49.5%	
Loan Originations:						
Principal balance of loans:						
Correspondents:						
Title I	$5,251,647	64.3%	$63,792,680	72.7%	$ 82,596,197	59.3%
Conventional	--	--	--	--	11,582,108	8.3
Total Correspondents	5,251,647	64.3	63,792,680	72.7	94,178,305	67.6
Dealers	1,492,318	18.3	23,957,829	27.3	45,188,721	32.4
Bulk purchase	1,420,150	17.4	--	--	--	--
Total	$8,164,115	100.0%	$87,750,509	100.0%	$139,367,026	100.0%
Number of Loans:						
Correspondents:						
Title I	338	47.4%	3,437	59.1%	4,382	50.9%
Conventional	--	--	--	--	392	4.6
Total Correspondents	338	47.4	3,437	59.1	4,774	55.5
Dealers	164	23.0	2,381	40.9	3,836	44.5
Bulk purchase	211	29.6	--	--	--	--
Total	713	100.0%	5,818	100.0%	8,610	100.0%
Average principal balance of loans	$ 11,430		$ 15,083		$ 16,187	
Weighted average interest rate on loans originated	14.18%		14.55%		14.03%	
Weighted average term of loans originated (months)	175		188		198	

</TABLE>

LOAN PROCESSING AND UNDERWRITING

The Company's loan application and approval process generally is conducted over the telephone with applications usually received at the Company's centralized processing facility from Correspondents and Dealers by facsimile transmission. Upon receipt of an application, the information is entered into the Company's system and processing begins. All loan applications are individually analyzed by employees of the Company at its loan processing headquarters in Atlanta, Georgia.

The Company has developed a proprietary credit index profile ("CIP") as a statistical credit based tool to predict likely future performance of a borrower. A significant component of this customized system is the credit evaluation score methodology developed by Fair, Isaac and Company ("FICO"), a consulting firm specializing in creating default predictive models through a high number of variable components. The other components of the CIP include debt to income analysis, employment stability, self employment criteria, residence stability and occupancy status of the subject property. By utilizing both scoring models in tandem, all applicants are considered on the basis of their ability to repay the loan obligation while allowing the Company to maintain its risk based pricing for each loan.

Based upon FICO score default predictors and the Company's internal CIP score, loans are classified by the Company into gradations of descending credit risks and quality, from "A" credits to "D" credits, with subratings within those categories. Quality is a function of both the borrowers creditworthiness, and the extent of the value of the collateral, which is typically a second lien on the borrower's primary residence. "A+" credits generally have a FICO score greater than 680. An applicant with a FICO score of less than 620 would be rated a "C" credit unless the loan-to-value ratio was 75% or less which would raise the credit risk to the Company to a "B" or better depending on the borrower's debt service capability. Depending on loan size, typical loan-to-value ratios for "A" and "B" credits range from 90% to 125%, while loan-to-value ratios for "C" and "D" credits range from 60% up to 90% with extraordinary compensating factors.

The Company's underwriters review the applicant's credit history, based on the information contained in the application as well as reports available from credit reporting bureaus and the Company's CIP score, to determine the applicant's acceptability under the Company's underwriting guidelines. Based on the under-

writer's approval authority level, certain exceptions to the guidelines may be made when there are compensating factors subject to approval from a corporate officer. The underwriter's decision is communicated to the Correspondent or Dealer and, if approved, fully explains the proposed loan terms. The Company endeavors to respond to the Correspondent or Dealer on the same day the application is received.

The Company issues a commitment to purchase a pre-approved loan upon the receipt of a fully completed loan package. Commitments indicate loan amounts, fees, funding conditions, approval expiration dates and interest rates. Loan commitments are generally issued for periods of up to 45 days in the case of Correspondents and 90 days in the case of Dealers. Prior to disbursement of funds, all loans are carefully reviewed by funding auditors to ensure that all documentation is complete, all contingencies specified in the approval have been met and the loan is closed in accordance with Company and regulatory procedures.

Conventional Loans

The Company has implemented policies for its Conventional Loan program that are designed to minimize losses by adhering to high credit quality standards or requiring adequate loan-to-value levels. The Company will only make Conventional Loans to borrowers with an "A" or "B" credit grade using the CIP. Through August 31, 1996, the Company's portfolio of Conventional Loans originated through its Correspondent Division had been evaluated as an "A" credit risk and had a weighted average (i) FICO score of 661, (ii) gross debt to income ratio of 38%, (iii) interest rate of 14.04% and (iv) loan-to-value ratio of 110%, as well as an average loan amount of $28,569. Substantially all of the Conventional Loans originated to date by the Company are secured by first or second mortgage liens on single family, owner occupied properties.

Terms of Conventional Loans made by the Company, as well as the maximum loan-to-value ratios and debt service to income coverage (calculated by dividing fixed monthly debt payments by gross monthly income), vary depending upon the Company's evaluation of the borrower's creditworthiness. Borrowers with lower creditworthiness generally pay higher interest rates and loan origination fees.

As part of the underwriting process for Conventional Loans, the Company generally requires an appraisal of the collateral property as a condition to the commitment to purchase. The Company requires independent appraisers to be state licensed and certified. The Company requires that all appraisals be completed within the Uniform Standards of Professional Appraisal Practice as adopted by the Appraisal Standards Board of the Appraisal Foundation. Prior to originating a loan, the Company audits the appraisal for accuracy and to insure that the appraiser used sufficient care in analyzing data to avoid errors that would

significantly affect the appraiser's opinion and conclusion. This audit includes a review of economic demand, physical adaptability of the real estate, neighborhood trends and the highest and best use of the real estate. In the event the audit reveals any discrepancies as to the method and technique that are necessary to produce a credible appraisal, the Company will perform additional property data research or may request a second appraisal to be performed by an independent appraiser selected by the Company in order to substantiate further the value of the subject property.

The Company also requires a title report on all subject properties securing its loans to verify property ownership, lien position and the possibility of outstanding tax liens or judgments. In the case of larger loan amounts or first liens, the Company requires a full title insurance policy in compliance with the American Land Title Association.

Title I Loans

The Title I Loans originated by the Company are executed on forms meeting FHA requirements as well as federal and state regulations. Loan applications and Installment Contracts are submitted to the Company's processing headquarters for credit verification. The information provided in loan applications is first verified by, among other things, (i) written confirmations of the applicant's income and, if necessary, bank deposits, (ii) a formal credit bureau report on the applicant from a credit reporting agency, (iii) a title report, (iv) if necessary, a real estate appraisal and (v) if necessary, evidence of flood insurance. Appraisals for Title I Loans, when necessary, are generally prepared by pre-approved independent appraisers that meet the Company's standards for experience, education and reputation. Loan applications are also reviewed to

ascertain whether or not they satisfy the Company's underwriting criteria, including loan-to-value ratios (if non-owner occupied), borrower income qualifications, employment stability, purchaser requirements and necessary insurance and property appraisal requirements. The Company will make Title I Loans to borrowers with an "A" to "C" credit grade based on CIP score and lien position. Since the implementation of the CIP scoring system in February 1996, through August 31, 1996, the Company's portfolio of Title I Loans originated through its Correspondent and Dealer Divisions had been evaluated as a "C+" and "B" credit risk, respectively, and had a weighted average FICO score of 637 and 645, respectively. The Company's underwriting guidelines for Title I Loans meet FHA's underwriting criteria. Completed loan packages are sent to the Company's Underwriting Department for predisbursement auditing and funding.

Subject to underwriting approval of an application forwarded to the Company by a Dealer, the Company issues a commitment to purchase an Installment Contract from a Dealer upon the Company's receipt of a fully completed loan package and notice from the borrower of satisfactory work completion. Subject to underwriting approval of an application forwarded to the Company by a Correspondent, the Company issues a commitment to purchase a Title I Loan upon the Company's receipt of a fully completed and closed loan package.

The Company's underwriting personnel review completed loan applications to verify compliance with the Company's underwriting standards, FHA requirements and federal and state regulations. In the case of Title I Loans being acquired from Dealers, the Company conducts a prefunding telephonic interview with the property owner to determine that the improvements have been completed in accordance with the terms of the Installment Contract and to the owner's satisfaction. The Company utilizes a nationwide network of independent inspectors to perform on-site inspections of improvements within the timeframes specified by the Title I program.

Since the Company does not currently originate any Title I Loans with an original principal balance in excess of $25,000, the FHA does not individually review the Title I Loans originated by the Company.

QUALITY CONTROL

The Company employs various quality control personnel and procedures in order to insure that loan origination standards are adhered to and regulatory compliance is maintained while substantial growth is experienced in the servicing portfolio.

In accordance with Company policy, the Quality Control Department reviews a statistical sample of loans closed each month. This review is generally completed within 60 days of funding and circulated to appropriate department heads and senior management. Finalized reports are maintained in the Company's files for a period of two years from completion. Typical review procedures include reverification of employment and income, re-appraisal of the subject

property, obtaining separate credit reports and recalculation of debt-to-income ratios. The statistical sample is intended to cover 10% of all new loan originations with particular emphasis on new Correspondents and Dealers. Emphasis will also be placed on those loan sources where higher levels of delinquency are experienced, physical inspections reveal a higher level of non-compliance, or payment defaults occur within the first six months of funding. On occasion, the Quality Control Department may review all loans generated from a particular loan source in the event an initial review determines a higher than normal number of exceptions. The account selection of the Quality Control Department is also designed to include a statistical sample of loans by each underwriter and each funding auditor and thereby provide management with information as to any aberration from Company policies and procedures in the loan origination process.

Under the direction of the Vice President of Credit Quality and Regulatory Compliance, a variety of review functions are accomplished. On a daily basis, a sample of recently approved loans are reviewed to insure compliance with underwriting standards. Particular attention is focused on those underwriters who have developed a higher than normal level of exceptions. In addition to this review, the Company has developed a staff of post-disbursement review auditors which reviews 100% of recently funded accounts, typically within two weeks of funding. All credit reports are analyzed, debt-to-income ratios recalculated, contingencies monitored and loan documents inspected. Exception reports are forwarded to the respective Vice Presidents of

Production as well as senior management. The Company also employs a Physical Inspection Group that is responsible for monitoring the inspection of all homes which are the subject of home improvement loans. Non-compliance is tracked by loan source and serves as another method of evaluating a loan source relationship.

The Company has expended substantial amounts in developing its Quality Control and Compliance Department. The Company recognizes the need to monitor its operations continually as it experiences substantial growth. Feedback from these departments provides senior management with the information necessary to take corrective action when appropriate, including the revision and expansion of its operating policies and procedures.

LOAN PRODUCTION TECHNOLOGY SYSTEMS

The Company utilizes a sophisticated computerized loan origination tracking system that allows it to monitor the performance of Dealers and Correspondents and supports the marketing efforts of the Dealer and Correspondent Divisions by tracking the marketing activities of field sales personnel. The system automates various other functions such as Home Mortgage Disclosure Act and HUD reporting requirements and routine tasks such as decline letters and the flood certification process. The system also affords management access to a wide range of decision support information such as data on the approval pipeline, loan delinquencies by source, and the activities and performance of underwriters and funders. The Company uses intercompany electronic mail, as well as an electronic-mail link with its affiliate, PEC, to facilitate communications and has an electronic link to PEC that allows for the automated transfer of accounts to PEC's servicing system.

The Company is enhancing this system to provide for the automation of the loan origination process as well as loan file indexing and routing. These enhancements will include electronic routing of loan application facsimile transmissions, automated credit report inquiries and consumer credit scoring along with on-screen underwriting and approval functions. Where feasible the system will interface with comparable systems of the Company's Dealers and Correspondents. The Company expects that these enhancements will (i) increase loan production efficiencies by minimizing manual processing of loan documentation, (ii) enhance the quality of loan processing by use of uniform electronic images of loan files and (iii) facilitate loan administration and collections by providing easier access to loan account information. The implementation of these enhancements is expected to be substantially completed prior to December 1996. These enhancements to improve loan production systems are expected to cost approximately $50,000 and will be funded from the Company's normal operating cash flows.

LOAN SERVICING

The Company's strategy has been to retain the servicing rights associated with the loans it originates. The Company's loan servicing activities include responding to borrower inquiries, processing and administering loan payments, reporting and remitting principal and interest to the whole loan purchasers who own interests in the loans and to the trustee and others with respect to

securitizations, collecting delinquent loan payments, processing Title I insurance claims, conducting foreclosure proceedings and disposing of foreclosed properties and otherwise administering the loans. The Company's various loan sale and securitization agreements allocate a portion of the difference between the stated interest rate and the interest rate passed through to purchasers of its loans to servicing revenue. Servicing fees are collected by the Company out of monthly loan payments. Other sources of loan servicing revenues include late charges and miscellaneous fees. The Company uses a sophisticated computer based mortgage servicing system that it believes enables it to provide effective and efficient administering of Conventional and Title I Loans. The servicing system is an on-line real time system developed and maintained by the Company's affiliate, PEC. It provides payment processing and cashiering functions, automated payoff statements, on-line collections, statement and notice mailing along with a full range of investor reporting requirements. The Company has entered into a subservicing agreement with PEC for the use of the system and continuous support. The monthly investor reporting package includes a trial balance, accrued interest report, remittance report and delinquency reports. Formal written procedures have been established for payment processing, new loan set-up, customer service, tax and insurance monitoring.

The Company is a HUD approved lender and a FNMA approved seller/servicer. As such, it is subject to a thorough due diligence review of its policies, procedures, and business, and is qualified to underwrite, sell and service Title I Loans on behalf of the FHA and FNMA.

The Company's loan collection functions are organized into two areas of operation: routine collections and management of nonperforming loans.

Routine collection personnel are responsible for collecting loan payments that are less than 60 days contractually past due and providing prompt and accurate responses to all customer inquiries and complaints. These personnel report directly to the Company's Vice President of Loan Administration. Borrowers are contacted on the due date for each of the first six payments in order to encourage continued prompt payment. Generally, after six months of seasoning, collection activity will commence if a loan payment has not been made within five days of the due date. Borrowers usually will be contacted by telephone at least once every five days and also by written correspondence before the loan becomes 60 days delinquent. With respect to loan payments that are less than 60 days late, routine collections personnel utilize a system of mailed notices and telephonic conferences for reminding borrowers of late payments and encouraging borrowers to bring their accounts current. Installment payment invoices and return envelopes are mailed to each borrower on a monthly basis. The Company has bilingual customer service personnel available.

Once a loan becomes 30 days past due, a collection supervisor generally analyzes the account to determine the appropriate course of remedial action. On or about the 45th day of delinquency, the supervisor determines if the property needs immediate inspection to determine if it is occupied or vacant. Depending upon the circumstances surrounding the delinquent account, a temporary suspension of payments or a repayment plan to return the account to current status may be authorized by the Vice President of Loan Administration. In any event, it is the Company's policy to work with the delinquent customer to resolve the past due balance before Title I claim processing or legal action is initiated.

Nonperforming loan management personnel are responsible for collecting severely delinquent loan payments (over 60 days late), filing Title I insurance claims or initiating legal action for foreclosure and recovery. Operating from the Company's headquarters in Atlanta, Georgia, collection personnel are responsible for collecting delinquent loan payments and seeking to mitigate losses by providing various alternatives to further actions, including modifications, special refinancing and indulgence plans. Title I insurance claim personnel are responsible for managing Title I insurance claims, utilizing a claim management system designed to track insurance claims for Title I Loans so that all required conditions precedent to claim perfection are met. In the case of Conventional Loans, a foreclosure coordinator will review all previous collection activity, evaluate the lien and equity position and obtain any additional information as necessary. The ultimate decision to foreclose, after all necessary information is obtained, is made by an officer of the Company. Foreclosure regulations and practices and the rights of the owner in default vary from state to state, but generally procedures may be initiated if: (i) the loan is 90 days (120 days under California law) or more delinquent; (ii) a notice of default on a senior lien is received; or (iii) the Company discovers circumstances indicating potential loss exposure.

Net loan servicing income was $873,000 and $3.3 million for the years ended August 31, 1995 and 1996, respectively, constituting 6.4% and 13.4%,

respectively, of the Company's total revenues in such periods. As of August 31, 1996, the Company had increased the size of the loan portfolio it services to approximately $214.2 million from approximately $92.3 million as of August 31, 1995, an increase of approximately $121.9 million or 132.1%. The Company's loan servicing portfolio is subject to reduction by normal amortization, prepayment of outstanding loans and defaults.

The following table sets forth certain information regarding the Company's loan servicing for the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,		
	1994(1)	1995	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Servicing portfolio at beginning of year	$ --	$ 8,026	$ 92,286
Additions to servicing portfolio	8,164	87,751	139,367
Reductions in servicing portfolio(2)	138	3,491	17,464
Servicing portfolio at end of year	$8,026	$92,286	$214,189
Servicing portfolio (end of year):			
Company-owned loans	1,471	3,720	4,698
Sold loans	6,555	88,566	209,491
Total	$8,026	$92,286	$214,189

</TABLE>

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(1) The Company commenced originating loans in March 1994.
(2) Reductions result from scheduled payments, prepayments and write-offs during the period.

The following table sets forth the delinquency and Title I insurance claims experience of loans serviced by the Company as of the dates indicated:

<TABLE>
<CAPTION>

	AUGUST 31,		
	1994(1)	1995	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Delinquency period(2)			
31-60 days past due	2.06%	2.58%	2.17%
61-90 days past due	0.48	0.73	0.85
91 days and over past due	0.36	0.99	4.53(3)
91 days and over past due, net of claims filed(4)	0.26	0.61	1.94
Claims filed with HUD(5)	0.10	0.38	2.59%
Number of Title I insurance claims	1	23	255
Total servicing portfolio at end of period	$8,026	$ 92,286	$ 214,189
Amount of FHA insurance available	813	9,552	21,205(6)
Amount of FHA insurance available as a percentage of loans serviced (end of year)	10.13%	10.35%	9.90%(6)
Losses on liquidated loans(7)	$ --	$ 16.8	$ 32.0

</TABLE>

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(1) The Company commenced originating loans in March 1994.
(2) Represents the dollar amount of delinquent loans as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.
(3) During the year ended August 31, 1996, the processing and payment of claims filed with HUD was delayed.
(4) Represents the dollar amount of delinquent loans net of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.
(5) Represents the dollar amount of delinquent Title I Loans for which claims have been filed with HUD and payment is pending as a percentage of total

dollar amount of loans serviced by the Company (including loans owned by the Company) as of the date indicated.

(6) If all claims with HUD had been processed as of period end, the amount of FHA insurance available would have been reduced to $16,215,000, which as a percentage of loans serviced would have been 7.77%.

(7) A loss is recognized upon receipt of payment of a claim or final rejection thereof. Claims paid in a period may relate to a claim filed in an earlier period. Since the Company commenced its Title I lending operations in March 1994, there has been no final rejection of a claim by the FHA. Aggregate losses on

liquidated Title I Loans related to 83 of the 338 Title I insurance claims made by the Company since commencing operations through August 31, 1996. Losses on liquidated loans will increase as the balance of the claims are processed by HUD. The Company has received an average payment from HUD equal to 90% of the outstanding principal balance of such Title I Loans, plus appropriate interest and costs.

The Company has received an average amount equal to 96.87% of the outstanding principal balance of Title I Loans for which claims have been made, each payment including certain interest and costs. The processing and payment of claims filed with HUD have been delayed for a number of reasons including (i) furloughs experienced by HUD personnel in December 1995 and January 1996, (ii) the growth in the volume of Title I Loans originated from approximately $750 million in 1994 to $1.3 billion in 1995 without a corresponding increase in HUD personnel to service claims and (iii) the transition of processing operations to regional centers during the second and third quarters of 1996. It is expected that once appropriate staffing and training have been completed at HUD regional centers, the timeframe for payment of HUD claims will be significantly shortened.

Sale of Loans

The Company customarily sells the loans it originates to third party purchasers or, in the case of a third party purchaser not eligible to own a Title I Loan, sells Title I Loan participation certificates backed by Title I Loans. Whether the Company sells a loan or a loan participation, the Company typically retains the right to service the loans for a servicing fee. The Company typically sells loans for an amount approximating the then remaining principal balance. The purchasers are entitled to receive interest at yields below the stated interest rates of the loans. In connection with such sales, the Company is typically required to deposit into a reserve account the excess servicing spread received by it, less its servicing fee, up to a specified percentage of the principal balance of the loans, to fund shortfalls in collections that may result from borrower defaults. To date, the purchasers in whole loan sales have been two banks and another financial institution.

The following table sets forth certain data regarding Title I Loans sold by the Company during the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,		
	1994(1)	1995	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Principal amount of loans sold to third party purchasers	$6,555	$85,363	$137,908(2)
Gain on sales of loans to third party purchasers	579	12,233	17,994
Net unrealized gain on mortgage related securities	--	--	2,697
Weighted average stated interest rate on loans sold to third party purchasers	14.15%	14.53%	14.09%
Weighted average pass-through interest rate on loans sold to third party purchasers	8.54	8.36	7.50
Weighted average excess spread retained on loans sold	5.61	6.17	6.59

</TABLE>

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(1) The Company commenced originating loans in March 1994.
(2) Includes $10.5 million of Conventional Loans.

At August 31, 1995 and 1996, the Company's statement of financial condition

reflected excess servicing rights of approximately $14.5 million and $12.1 million, respectively. The Company also retains mortgage related securities through securitization transactions. At August 31, 1996, the Company's statement of financial condition reflected $22.9 million of mortgage related securities. The Company derives a significant portion of its income by realizing gains upon the sale of loans and loan participations due to the excess servicing rights associated with such loans. Excess servicing rights represent the excess of the interest rate payable by a borrower on a loan over the interest rate passed through to the purchaser of an interest in the loan, less the Company's normal servicing fee and other applicable recurring fees. Mortgage related securities consist of certificates representing the excess of the interest rate payable by an obligor on a sold loan over the yield on pass through certificates sold pursuant to a securitization transaction, after payment of servicing and

other fees. When loans are sold, the Company recognizes as current revenue the present value of the excess servicing rights expected to be realized over the anticipated average life of the loans sold less future estimated credit losses relating to the loans sold. The capitalized excess servicing rights and valuation of mortgage related securities are computed using prepayment, default and interest rate assumptions that the Company believes are reasonable based on experience with its own portfolio, available market data and ongoing consultation with industry participants. The amount of revenue recognized by the Company upon the sale of loans or loan participations will vary depending on the assumptions utilized. The weighted average discount rate used to determine the present value of the balance of capitalized excess servicing rights reflected on the Company's statement of financial condition at August 31, 1995 and 1996 was approximately 12.0%.

Capitalized excess servicing rights are amortized over the lesser of the estimated or actual remaining life of the underlying loans as an offset against the excess servicing rights component of servicing income actually received in connection with such loans. Although the Company believes that it has made reasonable estimates of the excess servicing rights likely to be realized, the rate of prepayment and the amount of defaults utilized by the Company are estimates and experience may vary from its estimates. The gain recognized by the Company upon the sale of loans will have been overstated if prepayments or defaults are greater than anticipated. Higher levels of future prepayments would result in capitalized excess servicing rights amortization expense exceeding realized excess servicing rights, thereby adversely affecting the Company's servicing income and resulting in a charge to earnings in the period of adjustment. Similarly, if delinquencies or liquidations were to be greater than was initially assumed, capitalized excess servicing rights amortization would occur more quickly than originally anticipated, which would have an adverse effect on servicing income in the period of such adjustment. The Company periodically reviews its prepayment assumptions in relation to current rates of prepayment and, if necessary, reduces the remaining asset to the net present value of the estimated remaining future excess servicing income. Rapid increases in interest rates or competitive pressures may result in a reduction of future excess servicing income, thereby reducing the gains recognized by the Company upon the sale of loans or loan participations in the future.

At August 31, 1995 and 1996, the Company's statement of financial condition reflected mortgage servicing rights of approximately $1.1 million and $3.8 million, respectively. The fair value of capitalized mortgage servicing rights was estimated by taking the present value of expected net cash flows from mortgage servicing using assumptions the Company believes market participants would use in their estimates of future servicing income and expense, including assumptions about prepayment, default and interest rates. Capitalized mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. The estimate of fair value was based on a range of 100 to 125 basis points per year servicing fee, reduced by estimated costs of servicing, and using a discount rate of 12% in the years ended August 31, 1995 and 1996. The Company has developed its assumptions based on experience with its own portfolio, available market data and ongoing consultation with industry participants.

In furtherance of the Company's strategy to sell loans through securitizations, in March 1996 and August 1996, the Company completed its first two securitizations pursuant to which it sold pools of $84.2 million and $48.8 million, respectively, of Title I Loans. The Company previously reacquired at par $77.7 million and $36.2 million of such loans, respectively. Pursuant to these securitizations, pass-through certificates evidencing interests in the pools of loans were sold in a public offering. The Company continues to subservice the sold loans and is entitled to receive from payments in respect of interest on the sold loans a servicing fee equal to 1.25% of the balance of each loan with respect to the March transaction and 1.0% with respect to the August transaction. In addition, with respect to both transactions, the Company

received certificates (carried as "Mortgage related securities" on the Company's balance sheet), representing the interest differential, after payment of servicing and other fees, between the interest paid by the obligors of the sold loans and the yield on the sold certificates. The Company may be required to repurchase loans that do not conform to the representations and warranties made by the Company in the securitization agreements.

The Company typically earns net interest income during the "warehouse" period between the closing or assignment of a loan and its delivery to a purchaser. On loans held for sale, the Company earns interest at long-term rates, financed by lines of credit which bear interest at short-term interest rates. Normally, short-term interest rates are lower than long-term interest rates and the Company earns a positive spread on its loans

held for sale. The average warehouse period for a loan ranges from six to 90 days, and the balance of loans in warehouse was approximately $3.7 million and $4.6 million as of August 31, 1995 and 1996, respectively. The Company's interest income, net of interest expense was $473,000 and $988,000 for the years ended August 31, 1995 and 1996, respectively.

SEASONALITY

Home improvement loan volume tracks the seasonality of home improvement contract work. Volume tends to build during the spring and early summer months, particularly with regard to pool installations. A decline is typically experienced in late summer and early fall until temperatures begin to drop. This change in seasons precipitates the need for new siding, window and insulation contracts. Peak volume is experienced in November and early December and declines dramatically from the holiday season through the winter months. Debt consolidation and home equity loan volume are not impacted by seasonal climate changes and, with the exclusion of the holiday season, tend to be stable throughout the year.

COMPETITION

The consumer finance industry is highly competitive. Competitors in the home improvement and debt consolidation loan business include mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and finance companies. Certain of the Company's competitors are substantially larger and have more capital and other resources than the Company.

The Company faces substantial competition within both the home improvement and debt consolidation loan industry. The home improvement and debt consolidation loan industry is dominated by widely diversified mortgage banking companies, commercial banks, savings and loan institutions, credit card companies, financial service affiliates of Dealers and unregulated financial service companies, many of which have substantially greater personnel and financial resources than those of the Company. At present, these types of competitors dominate the home improvement and debt consolidation loan industry; however, no one lender or group of lenders dominates the industry. According to a report issued by HUD, the Company was the fourth largest lender of Title I Loans, based on volume of loans originated, for the quarter ended June 30, 1996. Due to the variance in the estimates of the size of the conventional home improvement loan market, the Company is unable to accurately estimate its competitive position in that market. The Company believes that Greentree Financial Corp., The Money Store, First Plus Financial Inc., Associates First Capital Corporation and Empire Funding Corp. are some of its largest direct competitors. The Company competes principally by providing prompt, professional service to its Correspondents and Dealers and, depending on circumstances, by providing competitive lending rates.

Competition can take many forms including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, and interest rates. In addition, the current level of gains realized by the Company and its existing competitors on the sale of loans could attract additional competitors into this market with the possible effect of lowering gains on future loan sales owing to increased loan origination competition.

GOVERNMENT REGULATION

The Company's consumer lending activities are subject to the Federal Truth-in-Lending Act and Regulation Z (including the Home Ownership and Equity Protection Act of 1994), ECOA, the Fair Credit Reporting Act of 1970, as amended, RESPA and Regulation X, the Home Mortgage Disclosure Act, the Federal Debt Collection Practices Act and the Housing Act, as well as other federal and state statutes and regulations affecting the Company's activities. Failure to comply with these requirements can lead to loss of approved status, termination

or suspension of servicing contracts without compensation to the servicer, demands for indemnifications or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits and administrative enforcements actions.

The Company presently is subject to the rules and regulations of, and examinations by, HUD, FHA and other federal and state regulatory authorities with respect to originating, underwriting, funding, acquiring,

selling and servicing consumer and mortgage loans. In addition, there are other federal and state statutes and regulations affecting such activities. These rules and regulations, among other things, impose licensing obligations on the Company, establish eligibility criteria for loans, prohibit discrimination, provide for inspection and appraisals of properties, require credit reports on prospective borrowers, regulate payment features and, in some cases, fix maximum interest rates, fees and loan amounts. The Company is required to submit annual audited financial statements to various governmental regulatory agencies that require the maintenance of specified net worth levels. The Company's affairs are also subject to examination, at all times, by the Federal Housing Commissioner to assure compliance with FHA regulations, policies and procedures. For more information regarding regulation of the Company under Title I, see "Title I Loan Program."

The Company is a HUD approved Title I mortgage lender and is subject to the supervision of HUD. The Company is also a FNMA approved seller/servicer and is subject to the supervision of FNMA. In addition, the Company's operations are subject to supervision by state authorities (typically state banking or consumer credit authorities), many of which generally require that the Company be licensed to conduct its business. This normally requires state examinations and reporting requirements on an annual basis.

The Federal Consumer Credit Protection Act ("FCCPA") requires a written statement showing an annual percentage rate of finance charges and requires that other information be presented to debtors when consumer credit contracts are executed. The Fair Credit Reporting Act requires certain disclosures to applicants concerning information that is used as a basis for denial of credit. ECOA prohibits discrimination against applicants with respect to any aspect of a credit transaction on the basis of sex, marital status, race, color, religion, national origin, age, derivation of income from public assistance program, or the good faith exercise of a right under the FCCPA.

The interest rates which the Company may charge on its loans are subject to state usury laws, which specify the maximum rate which may be charged to consumers. In addition, both federal and state truth-in-lending regulations require that the Company disclose to its customers prior to execution of the loans, all material terms and conditions of the financing, including the payment schedule and total obligation under the loans. The Company believes that it is in compliance in all material respects with such regulations.

EMPLOYEES

As of August 31, 1996, the Company had 170 employees, including six executive officers, 78 managerial and staff professional personnel, 13 marketing and sales specialists and 73 general administrative and support personnel and loan processors. None of the Company's employees is represented by a collective bargaining unit. The Company believes that its relations with its employees are satisfactory.

PROPERTIES

In order to accommodate the Company's growth, a lease of new corporate headquarters was executed in April 1996 for 45,950 square feet at 1000 Parkwood Circle, Atlanta, Georgia. This lease is for an initial six year term expiring August 2002 with a conditional option to extend the term to August 2007. After an initial partial rent abatement period of six months, monthly rentals will be $73,711 plus a pro rata share of any operating expense increase. This lease rate will escalate 2% per year throughout the term of the lease. The Company also leases 10,478 square feet of office space at its prior headquarters location in Atlanta, Georgia, at a rental of $13,193 per month, pursuant to a lease that expires in March 1999. The Company intends to sublease this office space for the remaining term of its lease. The Company also leases office space on short-term or month-to-month leases in Kansas City, Missouri, Austin, Texas, Montvale, New Jersey, Oklahoma City, Oklahoma, Seattle, Washington, Waterford, Michigan, Columbus, Ohio, Elmhurst, Illinois, Philadelphia, Pennsylvania, Denver, Colorado, Woodbridge, Virginia and Bowie, Maryland.

LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is, from time to time, named in lawsuits. The Company believes that it has meritorious defenses to these lawsuits and that resolution of these matters will not have a material adverse effect on the business or financial condition of the Company.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the directors and executive officers of the Company.

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Jerome J. Cohen	68	Chairman of the Board and Chief Executive Officer
Jeffrey S. Moore	38	President, Chief Operating Officer and Director
James L. Belter	49	Executive Vice President and Chief Financial Officer
Michael G. Ebinger	40	Vice President, National Marketing
David A. Cleveland	39	Vice President and Chief Accounting Officer
Robert Nederlander	63	Director
Herbert B. Hirsch	60	Director
Don A. Mayerson	69	Director
Spencer I. Browne	46	Director Nominee
Jeremy Wiesen	54	Director Nominee

</TABLE>

Jerome J. Cohen has been Chairman of the Board of the Company since April 1995 and Chief Executive Officer of the Company since June 1992. Mr. Cohen has been the President and a Director of Mego Financial since January 1988. Since April 1992, Mr. Cohen has been a Director of Atlantic Gulf Communities Inc., formerly known as General Development Corporation, a publicly held company engaged in land development, land sales and utility operations in Florida and Tennessee. Mr. Cohen does not currently serve on a full time basis in his capacities with the Company.

Jeffrey S. Moore has been the President of the Company since April 1995 and Chief Operating Officer since December 1993. In addition, Mr. Moore has served as a director of the Company since June 1992. Prior to being elected President, Mr. Moore served as an Executive Vice President of the Company from June 1992 to March 1995. Mr. Moore was the founder and from August 1984 until March 1992, served as President, Chief Executive Officer and a director of Empire Funding Corp., a privately-held, nationwide consumer finance company specializing in originating, purchasing, selling and servicing FHA Title I and other home improvement mortgage loans. Mr. Moore serves as a director of the Title One Home Improvement Lenders Association and is a member of its Legislative and Regulatory Affairs Committee.

James L. Belter has been Executive Vice President of the Company since April 1995 and Chief Financial Officer since September 1996. Prior to joining the Company, from May 1989 to September 1993, Mr. Belter served as the President, Chief Operating Officer and a director of Del-Val Capital Corporation, a commercial finance company. From April 1985 to April 1989, Mr. Belter served as Executive Vice President of Security Capital Credit Corporation, a commercial finance company, where he was responsible for the formation of the company's installment receivable lending division. From November 1976 to April 1985, Mr. Belter served as a corporate Vice President of Barclays Business Credit, Inc. where he managed a unit specializing in financing portfolios of consumer contracts including residential second mortgages, home improvement contracts, timeshare and land sales.

Michael G. Ebinger has served as Vice President of National Marketing since June 1995. From January 1995 to June 1995, Mr. Ebinger served as Director of National Accounts of the Correspondent Division. From 1989 to 1994, Mr. Ebinger served as Director of National Accounts for the home improvement division of Greentree Financial Corporation, where he developed and managed the national account program which created a network of over 1,000 home improvement contractors. From 1987 to 1989, he served as West Coast Regional Manager for VIPCO, a division of Crane Plastics, a manufacturer of replacement vinyl siding.

From 1986 to 1987, he served as National Accounts Manager for Security Pacific Financial Services Corporation in

its Manufacturer Funding Division and was responsible for the marketing of its indirect home improvement loan programs to home improvement contractors.

David A. Cleveland has been Vice President and Chief Accounting Officer of the Company since October 1996. Mr. Cleveland has been Chief Accounting Officer of Mego Financial since October 1996. From June 1990 to July 1996, Mr. Cleveland served as Senior Vice President and Controller of PriMerit Bank, a federal savings bank. Mr. Cleveland does not currently serve on a full time basis in his capacities with the Company.

Robert Nederlander has been a Director of the Company since September 1996. Mr. Nederlander has been the Chairman of the Board and Chief Executive Officer of Mego Financial since January 1988. Mr. Nederlander has been Chairman of the Board of Riddell Sports Inc. since April 1988 and was Riddell Sports Inc.'s Chief Executive Officer from April 1988 through March 1993. From February 1992 until June 1992, Mr. Nederlander was also Riddell Sports Inc.'s interim President and Chief Operating Officer. Since November 1981, Mr. Nederlander has been President and a Director of the Nederlander Organization, Inc., owner and operator of one of the world's largest chains of legitimate theaters. He served as the Managing General Partner of the New York Yankees from August 1990 until December 1991, and has been a limited partner since 1973. Since October 1985, Mr. Nederlander has been President of the Nederlander Television and Film Productions, Inc.; Vice Chairman of the Board from February 1988 to early 1993 of Vacation Spa Resorts, Inc., an affiliate of Mego Financial; and Chairman of the Board of Allis-Chalmers Corp. from May 1989 to 1993, when he became Vice Chairman. In 1995, Mr. Nederlander became a director of HFS Incorporated. In October 1996, Mr. Nederlander became a director of News Communications, Inc., a publisher of community oriented free circulation newspapers. Mr. Nederlander was a senior partner in the law firm of Nederlander, Dodge and Rollins in Detroit, Michigan, from 1960 to 1989.

Herbert B. Hirsch has been a Director of the Company since the Company's formation in June 1992. Mr. Hirsch has been the Senior Vice President, Chief Financial Officer, Treasurer and a Director of Mego Financial since January 1988. Mr. Hirsch served as Vice President and Treasurer of the Company from June 1992 to September 1996.

Don A. Mayerson has been a Director of the Company since the Company's formation in June 1992. Mr. Mayerson has been the Secretary of Mego Financial since January 1988 and the Executive Vice President and General Counsel of Mego Financial since April 1988. Mr. Mayerson served as Vice President, General Counsel and Secretary of the Company from June 1992 to September 1996.

Spencer I. Browne has been nominated and has agreed to become a Director of the Company upon consummation of the Offering. For more than five years prior to September 1996, Mr. Browne held various executive and management positions with several publicly traded companies engaged in businesses related to the residential and commercial mortgage loan industry. From August 1988 until September 1996, Mr. Browne served as President, Chief Executive Officer and a director of Asset Investors Corporation ("AIC"), a New York Stock Exchange ("NYSE") traded company he co-founded in 1986. He also served as President, Chief Executive Officer and a director of Commercial Assets, Inc., an American Stock Exchange traded company affiliated with AIC, from its formation in October 1993 until September 1996. In addition, from June 1990 until March 1996, Mr. Browne served as President and a director of M.D.C. Holdings, Inc., an NYSE traded company and the parent company of a major homebuilder in Colorado.

Jeremy Wiesen has been nominated and has agreed to become a Director of the Company upon consummation of the Offering. Mr. Wiesen has been an Associate Professor of Business Law and Accounting at the Leonard N. Stern School of Business at New York University since 1972.

The Company's officers are elected annually by the Board of Directors and serve at the discretion of the Board of Directors. The Company's directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. The Company reimburses all directors for their expenses in connection with their activities as directors of the Company. Directors of the Company who are also employees of the Company do not receive additional compensation for their services as directors. Members of the Board of Directors of the Company who are not employees of the Company receive an annual fee of $20,000 for four Board meetings per year plus $2,500 for each additional meeting attended in person and $1,000 for each additional telephonic meeting

attended. Directors are also reimbursed for their expenses incurred in attending meetings of the Board of Directors and its committees.

Upon the effective date of the Registration Statement of which this Prospectus forms a part, the Company will have an Audit Committee, Executive Committee and Stock Option Committee. The following is a brief description of the Company's committees and identification of the members thereof:

Audit Committee. The members of the Audit Committee will initially be Robert Nederlander, Jeremy Wiesen and Spencer I. Browne. The Audit Committee's functions include recommending to the Board the engagement of the Company's independent certified public accountants, reviewing with the accountants the plan and results of their audit of the Company's financial statements and determining the independence of the accountants.

Executive Committee. The members of the Executive Committee will initially be Jerome J. Cohen, Jeffrey S. Moore and Robert Nederlander. The Executive Committee will have the authority to exercise all of the powers of the Board to the extent permitted by the Delaware General Corporation Law.

Stock Option Committee. The members of the Stock Option Committee will initially be Jeremy Wiesen and Spencer I. Browne. The Stock Option Committee will have the authority to approve the grant of options under the Company's Stock Option Plan to any employee of the Company who, on the last day of the taxable year of the Company, is (i) the Chief Executive Officer of the Company or who is acting in such capacity, (ii) among the four highest compensated officers of the Company and its affiliates (other than the Chief Executive Officer), or (iii) otherwise considered to be a "Covered Employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

Mego Financial and the Company have restated certain of their previously issued financial statements, including certain financial statements upon which their independent auditors had rendered unqualified opinions. See Note 16 of Notes to Financial Statements. As a result of the restatement of Mego Financial's financial statements and certain trading in Mego Financial's common stock, the Commission has commenced a formal investigation to determine, among other things, whether Mego Financial, and/or its officers and directors, violated applicable federal securities laws in connection with the preparation and filing of Mego Financial's previously issued financial statements or such trading. Certain of such officers and directors are also officers and/or directors of the Company. Possible penalties for violation of federal securities laws include civil remedies, such as fines and injunctions, as well as criminal sanctions. There can be no assurance that Mego Financial and/or its officers and directors will not be found to have violated the federal securities laws or that the Company will not be affected by the investigation or any sanction.

KEY EMPLOYEES

Robert Bellacosa -- Mr. Bellacosa, age 54, has served as Vice President -- Financial Management since October 1993 and Secretary since September 1996. From May 1989 to October 1993, Mr. Bellacosa served as Senior Vice President of Accounting for Del-Val Capital Corp. From May 1985 to May 1989, he served as Vice President of Security Capital Credit Corp. where he was responsible for loan administration of commercial real estate and term receivable lending functions. From 1974 to 1985, he served as Vice President for Aetna Business Credit, Inc. which was purchased by Barclays American Business Credit, Inc. and was responsible for the management of loan administration for special term receivables.

Jack Elrod -- Mr. Elrod, age 40, has served as Vice President -- Loan Administration since May 1995. From March 1994 to May 1995, Mr. Elrod served as a Senior Underwriter for ITT Financial Corporation. From March 1993 to March 1994, he served as Branch Manager for Commercial Credit Corporation and from January 1977 to February 1993, he served as Assistant Vice President and District Manager of Household Finance Corporation.

Samuel Schultz -- Mr. Schultz, age 47, has served as Vice President -- Credit Quality since June 1996 and as Vice President of the Company's Dealer Division Operations from December 1993 until June 1996. Mr.

Schultz was a consultant to the Company from June 1993 until December 1993. From September 1990 to June 1993, he served as Vice President of Underwriting for Empire Funding Corp., a nationwide consumer finance company specializing in the purchase of FHA Title I and other home improvement mortgage loans. From February 1988 to September 1990, he served as a Senior Manager for Avco Financial Services. From

October 1985 to February 1988, he served as a Department Manager for Associates Financial Services Inc. Prior to 1985, and since 1971, Mr. Schultz's experience includes collections and originations of consumer finance loans for Postal Finance, Turner Mortgage and other consumer finance companies.

Yancy Lockie -- Mr. Lockie, age 33, has served as Vice President -- Dealer Division Operations since July 1996. From September 1993 to June 1996, Mr. Lockie served as Manager of Real Estate Underwriting for NationsCredit Financial Services and was responsible for underwriting of real estate and indirect home improvement loans for 245 branches and from December 1990 to August 1993, he served as Branch Manager for NationsCredit Financial Services. From 1987 to November 1990, he served as a Senior Assistant Manager and Senior Underwriter for Household Finance Corporation.

John Kostelich -- Mr. Kostelich, age 33, has served as Vice President -- Project Management since June 1996 and is responsible for developing and implementing the Company's policies and procedures for new and diversified loan products. From June 1995 to June 1996, Mr. Kostelich served as Director of Compliance for the Company. From 1985 to 1995, he served in various positions for ITT Consumer Financial Corporation, including Director of Quality Control and Correspondent Support Operations, Senior Compliance Officer, in which he managed special projects for the Chairman of the company, Regional Manager and Branch Manager.

EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long-term compensation earned by the Company's chief executive officer and each of the three other executive officers whose annual salary and bonus during the fiscal years presented exceeded $100,000 (the "Named Executive Officers"). As of August 31, 1996, no stock options had been granted or were outstanding.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	NUMBER OF OPTIONS GRANTED(2)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Jerome J. Cohen(3).....	1994	$ 75,000	$ --	$ --	--	$ --
Chairman of the Board and	1995	64,388	--	--	--	--
Chief Executive Officer	1996	65,748	--	--	--	--
Jeffrey S. Moore.....	1994	$126,771	$ --	$ 5,400	25,000	$ --
President and Chief	1995	200,003	--	13,963	--	--
Operating Officer	1996	200,003	86,084	13,625	--	--
James L. Belter.....	1994	$ 98,079	$ --	$ --	15,000	$ --
Executive Vice President and	1995	150,003	50,000	1,510	--	--
Chief Financial Officer	1996	159,080	50,000	4,330	--	--
Michael G. Ebinger.....	1994	$ --	$ --	$ --	--	$ --
Vice President	1995	55,320	--	5,609	15,000	--
	1996	110,011	11,500	--	--	--

</TABLE>

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(1) Other annual compensation consists of car allowances, contributions to 401(k) plans and moving expenses.
(2) Represents options to purchase shares of Mego Financial's common stock paid as compensation for services rendered to the Company.
(3) Mr. Cohen's compensation is included in the management fees paid to PEC. See "Certain Transactions."

EMPLOYMENT AGREEMENT

The Company has entered into an employment agreement with Jeffrey S. Moore which expires on December 31, 1998 and which provides for an annual base salary of $200,000. In addition, Mr. Moore is to

receive an incentive bonus each calendar year equal to 1.5% of the Company's after tax income, provided that certain scheduled sales goals are met, as well as deferred compensation of 1% of the gain on sale from sales of loans during such year, payable in 48 equal installments. In the event payments of the incentive bonus and deferred compensation due in any year exceed $500,000, then the excess over $500,000 is only payable with the approval of the Company's Board of Directors.

COMPANY STOCK OPTION PLAN

Under the Company's Stock Option Plan (the "Plan"), which will be effective upon the consummation of the Common Stock Offering, 925,000 shares of Common Stock will be reserved for issuance upon exercise of stock options. The options, even if vested, may not be exercised without the written approval of Mego Financial during the Eighty Percent Period. Such shares will be accompanied by stock appreciation rights which will become exercisable as determined by the Board, or a Committee thereof, only if Mego Financial does not give approval to the exercise of the option. The Plan is designed as a means to retain and motivate key employees and directors. The Company's Board of Directors, or a committee thereof, administers and interprets the Plan and is authorized to grant options thereunder to all eligible employees and directors of the Company, except that no incentive stock options (as defined in Section 422 of the Internal Revenue Code) may be granted to a director who is not also an employee of the Company or a subsidiary.

The Plan will provide for the granting of both incentive stock options and nonqualified stock options. Options will be granted under the Plan on such terms and at such prices as determined by the Company's Board of Directors, or a committee thereof, except that the per share exercise price of incentive stock options cannot be less than the fair market value of the Common Stock on the date of grant. Each option is exercisable after the period or periods specified in the related option agreement, but no option may be exercisable after the expiration of ten years from the date of grant. Options granted to an individual who owns (or is deemed to own) at least 10% of the total combined voting power of all classes of stock of the Company must have an exercise price of at least 110% of the fair market value of the Common Stock on the date of grant and a term of no more than five years. The Plan also authorizes the Company to make or guarantee loans to optionees to enable them to exercise their options. Such loans must (i) provide for recourse to the optionee, (ii) bear interest at a rate no less than the prime rate of interest, and (iii) be secured by the shares of Common Stock purchased. The Board of Directors has the authority to amend or terminate the Plan, provided that no such action may impair the rights of the holder of any outstanding option without the written consent of such holder, and provided further that certain amendments of the Plan are subject to stockholder approval. Unless terminated sooner, the Plan will continue in effect until all options granted thereunder have expired or been exercised, provided that no options may be granted ten years after commencement of the Plan.

The following table sets forth information with respect to options to be granted under the Plan upon consummation of the Common Stock Offering to (i) each Named Officer and (ii) each director and nominee for director. All of the options are incentive stock options (other than the options being granted to Spencer I. Browne and Jeremy Wiesen), are being granted with an exercise price equal to the offering price, are subject to the consummation of the Common Stock Offering and are being granted in 1996.

<TABLE>
<CAPTION>

NAME OF GRANTEE	NUMBER OF SHARES
<S>	<C>
Robert Nederlander	25,000
Jerome J. Cohen	100,000
Jeffrey S. Moore	300,000
James L. Belter	100,000

Herbert B. Hirsch	25,000
Don A. Mayerson	25,000
Michael G. Ebinger	50,000
Spencer I. Browne	25,000
Jeremy Wiesen	25,000
Total	675,000

</TABLE>

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company does not currently have a Compensation Committee. Mr. Cohen participated in deliberations concerning compensation of executive officers during fiscal 1996. Mr. Cohen's compensation was determined by the Board of Directors of Mego Financial.

BONUS PLAN

The Company does not currently have a bonus plan but anticipates it may adopt a bonus plan pursuant to which an aggregate of not in excess of 2 1/2% of pretax income will be distributed to officers and key employees.

PRINCIPAL STOCKHOLDERS

Mego Financial currently owns 10,000,000 shares of Common Stock (after giving effect to the 1,600-for-one stock split), representing 100% of all the issued and outstanding Common Stock of the Company. After giving effect to the issuance of the Common Stock pursuant to the Common Stock Offering, Mego Financial will own approximately 83.3% of the issued and outstanding Common Stock of the Company (approximately 81.3% if the underwriters of the Common Stock Offering exercise their over-allotment option in full).

The following table sets forth, as of the date of this Prospectus, information with respect to the beneficial ownership of the common stock of Mego Financial by (i) each person known by the Company to be the beneficial owner of more than 5% of the outstanding shares of common stock of Mego Financial, (ii) each director and director nominee of the Company, (iii) each of the Named Executive Officers and (iv) all directors, director nominees and executive officers of the Company as a group. Unless otherwise noted, the

Company believes that all persons named in the table have sole voting and investment power with respect to all shares of common stock of Mego Financial beneficially owned by them.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER(1)	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OWNERSHIP ATTRIBUTABLE TO THE COMPANY	
		BEFORE OFFERING	AFTER OFFERING
<S>	<C>	<C>	<C>
Robert Nederlander(2)	2,133,697	11.4%	9.5%
Eugene I. Schuster and Growth Realty Inc. ("GRI")(3)	1,933,634	10.4	8.7
Jerome J. Cohen(4)	1,127,823	6.1	5.1
Jeffrey S. Moore(5)	15,000	*	*
James L. Belter(6)	9,000	*	*
Michael G. Ebinger(7)	3,000	*	*
Herbert B. Hirsch(8)	1,699,623	9.1	7.6
Don A. Mayerson(9)	824,414	4.4	3.7
Spencer I. Browne(10)	10,000	*	*
Jeremy Wiesen(11)	--	--	--
All executive officers and directors of the Company as a group (9 persons)(12)	5,822,557	30.2	25.2

</TABLE>

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* Less than 1%.

(1) A person is deemed to be the beneficial owner of securities that can be

acquired by such person within 60 days from the date of this Prospectus upon the exercise of options and warrants. Each beneficial owner's percentage ownership is determined by assuming that options and warrants that are held by such person (but not those held by any other person) and that are exercisable within 60 days from the date of this Prospectus have been exercised.

(2) 810 Seventh Avenue, 21st Floor, New York, New York 10019. Includes 21,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days, and 250,000 shares issuable upon the exercise of warrants held by an affiliate of Mr. Nederlander which are presently exercisable.

(3) 321 Fisher Building, Detroit, Michigan 48202. Consists of 1,683,634 shares held of record by GRI, a wholly-owned subsidiary of Venture Funding, Ltd. of which Mr. Schuster is a principal shareholder, Director and Chief Executive Officer, and 250,000 shares issuable upon the exercise of warrants held by an affiliate of Mr. Schuster which are presently exercisable.

(4) 1125 N.E. 125th Street, Suite 206, North Miami, Florida 33161. Includes 21,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days, and 200,000 shares issuable upon the exercise of warrants held by Mr. Cohen which are presently exercisable. Excludes 103,503 shares owned by Mr. Cohen's spouse and 500,000 shares owned by a trust for the benefit of his children over which Mr. Cohen does not have any investment or voting power, as to which he disclaims beneficial ownership.

(5) 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339. Includes 15,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days.

(6) 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339. Includes 9,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days.

(7) 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339. Includes 3,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days.

(8) 230 East Flamingo Road, Las Vegas, Nevada 89109. Includes 21,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days, and 200,000 shares issuable upon the exercise of warrants held by Mr. Hirsch which are presently exercisable. Excludes 10,000 shares held by the daughter of Mr. Hirsch as custodian for a

minor child as to which he disclaims beneficial ownership, and 21,666 shares held by a family trust, as to which he disclaims beneficial ownership.

(9) 1125 N.E. 125th Street, Suite 206, North Miami, Florida 33161. Includes 21,000 shares issuable under an option granted pursuant to the Mego Financial Stock Option Plan, to the extent exercisable within the next 60 days, and 100,000 shares issuable upon the exercise of warrants held by Mr. Mayerson which are presently exercisable. Excludes 56,667 shares owned by Mr. Mayerson's spouse, as to which he disclaims beneficial ownership.

(10) 1660 Holly Street, Denver, Colorado 80220.

(11) 254 East 68th Street, New York, New York 10021.

(12) See Notes (2)-(11).

CERTAIN TRANSACTIONS

The Company has entered into the following transactions with its affiliates in the past three years. The Company believes that each of these transactions is on terms at least as favorable to the Company as those which could have been negotiated with an unaffiliated third party.

TAX SHARING AND INDEMNITY AGREEMENT

After the Offering, the results of operations of the Company will continue to be included in the tax returns filed by Mego Financial's affiliated or combined group for federal income tax purposes. The members of the group, including the Company, currently are parties to a tax allocation arrangement that allocates the liability for those taxes among them. Effective on consummation of the Offering, the Company and Mego Financial will enter into a tax allocation and indemnity agreement. Under that agreement, for periods ending after the Offering, the tax liability of the Company will be allocated pursuant to a method that would impose on the Company liability for an amount that corresponds to the liability that the Company would incur if it filed a separate tax return. In addition, the agreement provides that the Company and Mego Financial each will indemnify the other under certain circumstances.

MANAGEMENT AGREEMENT WITH PEC

The Company and PEC were parties to a management services arrangement (the "Management Arrangement") pursuant to which certain executive, accounting, legal, management information, data processing, human resources, advertising and promotional personnel of PEC provide services to the Company on an as needed basis. The Management Arrangement provided for the payment by the Company of a management fee to PEC in an amount equal to the direct and indirect expenses of PEC related to the services rendered by its employees to the Company, including an allocable portion of the salaries and expenses of such employees based upon the percentage of time such employees spend performing services for the Company. For the years ended August 31, 1994, 1995 and 1996, $442,000, $690,000 and $671,000, respectively, of the salaries and expenses of certain employees of PEC were attributable to and paid by the Company in connection with services rendered by such employees to the Company. In addition, during the years ended August 31, 1994, 1995 and 1996, the Company paid PEC for developing certain computer programming, incurring costs of $130,000, $36,000 and $56,000, respectively.

The Company has entered into a formal management agreement with PEC, effective as of September 1, 1996, pursuant to which PEC has agreed to provide the following services to the Company for an aggregate annual fee of approximately $967,000 payable monthly: strategic planning, management and tax; accounting and finance; legal; management information systems; insurance management; human resources; and purchasing. Either party has the right to terminate all or any of these services upon 90 days' notice with a corresponding reduction in fees.

SERVICING AGREEMENT WITH PEC

The Company had an arrangement with PEC pursuant to which it paid servicing fees of 50 basis points of the principal balance of loans serviced per year. For the years ended August 31, 1994, 1995 and 1996, the Company paid servicing fees to PEC of $13,000, $232,000 and $709,000, respectively. The Company has entered into a servicing agreement with PEC, effective as of September 1, 1996, providing for the payment of servicing fees of 50 basis points of the principal balance of loans serviced per year. For the years ended August 31, 1995 and 1996, the Company incurred interest expense in the amount of $85,000 and $29,000, respectively, related to fees payable to PEC for these services. The interest rates were based on PEC's average cost of funds and equalled 11.8% in 1995 and 10.68% in 1996.

FUNDING AND GUARANTEES BY MEGO FINANCIAL

In order to fund the Company's past operations and growth, and in conjunction with filing consolidated returns, the Company incurred Intercompany Debt to Mego Financial. For the years ended August 31, 1995 and 1996, the amount of Intercompany Debt owed to Mego Financial was $8.5 million and $12.0 million,

respectively. Mego Financial has guaranteed the Company's obligations under the Warehouse Line, the Revolving Loan and the Company's new office lease. Such guarantees currently extend for the term of the loans and the lease. The Company has not paid any compensation to Mego Financial for such guarantees.

It is not anticipated that Mego Financial will continue to provide funds to the Company or guarantee the Company's indebtedness or other obligations following consummation of the Offering.

DESCRIPTION OF THE NOTES

GENERAL

The Notes are to be issued under an Indenture, to be dated as of , 1996 (the "Indenture"), between the Company and American Stock Transfer & Trust Company, as Trustee (the "Trustee"). A copy of the form of the Indenture is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The following summary of certain provisions of the Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture, including the definitions of certain terms therein and those terms made a part thereof by the Trust Indenture Act of 1939, as amended.

Principal of, premium, if any, and interest on the Notes will be payable, and the Notes may be exchanged or transferred, at the office or agency of the Company in the Borough of Manhattan, The City of New York (which initially shall be the corporate trust office of the Trustee, at 40 Wall Street, New York, New York 10005), except that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register.

The Notes will be issued only in fully registered form, without coupons, in denominations of $1,000 and any integral multiple of $1,000. No service charge shall be made for any registration of transfer or exchange of Notes, but the Company may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

TERMS OF THE NOTES

The Notes will be general unsecured obligations of the Company, subordinated in right of payment to all Senior Indebtedness of the Company, will be limited to $40,000,000 aggregate principal amount, and will mature on , 2001. The Notes will bear interest at the rate shown on the cover page hereof from , 1996, or from the most recent date to which interest has been paid or provided for, payable semiannually to Holders of record at the close of business on the or immediately preceding the interest payment date on and of each year, commencing , 1997. The Company will pay interest on overdue principal at 1% per year in excess of such rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

SUBSIDIARY GUARANTEES

The Notes will be unconditionally guaranteed (a "Subsidiary Guarantee") by all future Subsidiaries of the Company other than Special Purpose Subsidiaries (together, the "Subsidiary Guarantors", and each of them, a "Subsidiary Guarantor"), unless any such Subsidiary is designated an "Unrestricted Subsidiary" in accordance with the terms of the Indenture. Each Subsidiary Guarantor's obligations under its Subsidiary Guarantee will be unsecured obligations of such Subsidiary Guarantor, subordinated in right of payment to all Senior Indebtedness of such Subsidiary Guarantor, and will be joint and several with the obligations of each other Subsidiary Guarantor under its Subsidiary Guarantee of the Notes. In addition, the Indenture will provide that, in the event the Company designates a Restricted Subsidiary to be an Unrestricted Subsidiary, then such Restricted Subsidiary will be released and relieved of any obligations under its Subsidiary Guarantee; provided that such designation is conducted in accordance with the applicable provisions of the Indenture. See "-- Certain Covenants -- Restricted Payments", "-- Certain Definitions -- Unrestricted Subsidiary" and "-- Investments."

The Indenture will include a covenant by the Company to cause each future Restricted Subsidiary (other than a Special Purpose Subsidiary) to execute a Subsidiary Guarantee. The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee will be limited so as to reduce the risk that they would be found to constitute a fraudulent conveyance under applicable law. See "Risk Factors -- Fraudulent Conveyances and Preferential Transfers."

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SUBORDINATION

The Indebtedness represented by the Notes and the Subsidiary Guarantees will be subordinated in right of payment to all existing and future Senior Indebtedness of the Company and the Subsidiary Guarantors, respectively, including without limitation all obligations of the Company or any Subsidiary Guarantor under any Warehouse Facility, and will be senior in right of payment to all future Indebtedness of the Company and the Subsidiary Guarantors that by its terms is expressly subordinated in right of payment to the Notes or the Subsidiary Guarantees as described in the Indenture ("Junior Subordinated Obligations"). As of August 31, 1996, the Company had approximately $14.2 million of Senior Indebtedness outstanding and had no Subsidiaries. See "Capitalization." Although the Indenture contains limitations on the amount of additional Indebtedness which the Company and the Restricted Subsidiaries may incur, the amount of such Indebtedness is likely to be substantial, and substantially all such Indebtedness may be Senior Indebtedness. See "-- Certain Covenants -- Limitations on Indebtedness."

If any Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of the Bankruptcy Law or any applicable state fraudulent conveyance law, such Indebtedness nevertheless will constitute Senior Indebtedness for purposes of the Indenture.

The Company may not pay the principal of, premium, if any, or interest on, the Notes or make any deposit pursuant to the provisions described under "Defeasance" below and may not repurchase, redeem, defease or otherwise retire any Notes (collectively, "pay" or a "payment" with respect to the Notes) if (i) any Senior Indebtedness of the Company is not paid when due or (ii) any other default on any such Senior Indebtedness occurs and the maturity thereof has been accelerated in accordance with its terms, unless, in either case, (x) the default has been cured or waived and any such acceleration has been rescinded or (y) such Senior Indebtedness has been paid in full. During the continuance of any default (other than a default described in clause (i) or (ii) of the preceding sentence) with respect to any Designated Senior Indebtedness of the Company pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, the Company may not pay the Notes for a period (a "Payment Blockage Period") commencing upon the receipt by the Company and the Trustee of written notice of such default from the Representative of any Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period (a "Blockage Notice") and ending 179 days thereafter (or earlier if such Payment Blockage Period is terminated (i) by written notice to the Trustee and the Company from the Person or Persons who gave such Blockage Notice, (ii) by repayment in full of such Designated Senior Indebtedness or (iii) because the default giving rise to such Blockage Notice is no longer continuing). Notwithstanding the provisions described in the immediately preceding sentence (but subject to the provisions contained in the next preceding sentence), unless the holders of such Designated Senior Indebtedness or the Representative of such holders shall have accelerated the maturity of such Designated Senior Indebtedness, the Company may resume payments on the Notes after such Payment Blockage Period. Not more than one Blockage Notice may be given in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness during such period.

Upon any payment or distribution of the assets of the Company to creditors upon a total or partial liquidation or total or partial dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property (whether voluntary or involuntary), (i) the holders of Senior Indebtedness of the Company will be entitled to receive payment in full before the holders of the Notes are entitled to receive any payment, and (ii) until the Senior Indebtedness of the Company is paid in full, any payment to which the Holders of the Notes would be entitled but for this provision will be made to holders of Senior Indebtedness as their interests may appear, except that Holders may receive shares of stock or Indebtedness of the Company that is subordinated to Senior Indebtedness of the Company to at least the same extent as the Notes.

No Subsidiary Guarantor may make any payment under its Subsidiary Guarantee with respect to any payment with respect to the Notes if (i) any Senior Indebtedness of any Subsidiary Guarantor is not paid when due or (ii) any other default on any such Senior Indebtedness occurs and the maturity thereof has been

accelerated in accordance with its terms, unless, in either case, (x) the default has been cured or waived and any such acceleration has been rescinded or (y) such Senior Indebtedness has been paid in full. During the continuance of any default (other than a default described in clause (i) or (ii) of the preceding sentence) with respect to any Designated Senior Indebtedness of any Subsidiary Guarantor pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, such Subsidiary Guarantor may not make any payment with respect to the Notes for a period (a "Subsidiary Guarantor Payment Blockage Period") commencing upon the receipt by the Subsidiary Guarantor and the Trustee of written notice of such default from the Representative of any Designated Senior Indebtedness of such Subsidiary Guarantor specifying an election to effect a Subsidiary Guarantor Payment Blockage Period (a "Subsidiary Guarantor Blockage Notice") and ending 179 days thereafter (or earlier if such Subsidiary Guarantor Payment Blockage Period is terminated (i) by written notice to the Trustee and the Subsidiary Guarantors from the Person or Persons who gave such Subsidiary Guarantor Blockage Notice, (ii) by repayment in full of such Designated Senior Indebtedness of such Subsidiary Guarantor or (iii) because the default giving rise to such Subsidiary Guarantor Blockage Notice is no longer continuing). Notwithstanding the provisions described in the immediately preceding sentence (but subject to the provisions contained in the next preceding sentence and the next paragraph), unless the holders of such Senior Indebtedness of such Subsidiary Guarantor or the Representative of such holders shall have accelerated the maturity of such Designated Senior Indebtedness of such Subsidiary Guarantor, such Subsidiary Guarantor may resume payments under its Subsidiary Guarantee after such Subsidiary Guarantor Payment Blockage Period. Not more than one Subsidiary Guarantor Blockage Notice may be given with respect to the Subsidiary Guarantors in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of the Subsidiary Guarantors during such period.

Upon any payment or distribution of the assets of any Subsidiary Guarantor to creditors upon a total or partial liquidation or total or partial dissolution of the Subsidiary Guarantor or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Subsidiary Guarantor or its property (whether voluntary or involuntary), (i) the holders of Senior Indebtedness of such Subsidiary Guarantor will be entitled to receive payment in full before the holders of the Notes are entitled to receive any payment, and (ii) until the Senior Indebtedness of such Subsidiary Guarantor is paid in full, any payment to which the Holders of the Notes would be entitled but for this provision will be made to holders of Senior Indebtedness of such Subsidiary Guarantor as their interests may appear, except that Holders may receive shares of stock or Indebtedness that is subordinated to Senior Indebtedness of the Subsidiary Guarantor to at least the same extent as the Subsidiary Guarantees.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company or any Subsidiary Guarantor shall be received by the Trustee or the Holders at a time when such payment or distribution is prohibited by the foregoing provisions, such payment or distribution shall be held in trust for the benefit of the holders of Senior Indebtedness of such Person, and shall be paid or delivered by the Trustee or such Holders, as the case may be, to the holders of such Senior Indebtedness remaining unpaid or unprovided for or to their Representative, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay or to provide for the payment of all such Senior Indebtedness in full after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness.

If payment of the Notes is accelerated because of an Event of Default, the Company or the Trustee shall promptly notify the holders of Senior Indebtedness or any Representative thereof of the acceleration. If the Trustee provides such notice, the Trustee also will notify the Company of the acceleration.

By reason of such subordination provisions contained in the Indenture, in the event of insolvency, holders of the Notes may recover less, ratably, than other creditors of the Company or the Subsidiary Guarantors (including trade creditors), or may recover nothing.

OPTIONAL REDEMPTION

The Notes will not be redeemable prior to , , except as

provided below. Thereafter, the Notes will be redeemable, at the Company's option, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 calendar days' prior notice mailed by first-class mail to each Holder's registered address, at the following redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on of the years set forth below:

<TABLE>
<CAPTION>

PERIOD	REDEMPTION PRICE
<S>	<C>

</TABLE>

In addition, at any time and from time to time prior to , 1998, the Company may redeem in the aggregate up to 35% of the original principal amount of the Notes with the proceeds of one or more Public Equity Offerings, at a redemption price (expressed as a percentage of principal amount) of % plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided, however, that the aggregate principal amount of the Notes that remain outstanding after each such redemption is at least equal to 65% of the original principal amount of the Notes.

In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, although no Note of $1,000 in original principal amount or less shall be redeemed in part. If any Note is to be redeemed in part, the notice of redemption relating to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Note.

SINKING FUND

There will be no mandatory sinking fund for the Notes.

MANDATORY OFFERS TO PURCHASE THE NOTES

The Indenture will require the Company to purchase all of the outstanding Notes tendered by the Holders upon the occurrence of a Change of Control and to offer to purchase a portion of the outstanding Notes under certain other circumstances. See "Change of Control" and "Certain Covenants -- Limitations on Asset Sales."

CHANGE OF CONTROL

Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

A "Change of Control" will be deemed to have occurred:

(i) upon any merger or consolidation of the Company or Parent with or into any person or any sale, transfer or other conveyance, whether direct or indirect, of all or substantially all of the assets of the Company or Parent (in each case on a consolidated basis), in one transaction or a series of related transactions, if, in the case of any such merger or consolidation, the securities of the Company or Parent, as applicable, that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the Voting Stock of the Company or Parent are changed into or exchanged for cash, securities or property, unless pursuant to such transaction such securities are changed into or

exchanged for, in addition to any other consideration, securities of the surviving corporation that represent, immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving corporation, provided, however, that the sale by the Company, its Subsidiaries or Parent from time to time of Receivables in the ordinary

course of business shall not be treated hereunder as a sale of all or substantially all the assets of the Company or Parent;

(ii) when any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, whether or not applicable), other than any or all of the Excluded Persons, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of (A) more than 40% of the then outstanding shares of Voting Stock of the Company or (B) more than 40% (or, if the Excluded Persons, in the aggregate, then hold more than 40% of the outstanding shares of Voting Stock of the Parent, more than 45%) of the then outstanding shares of Voting Stock of the Parent; or

(iii) when, during any period of 24 consecutive months after the Issue Date, individuals who at the beginning of any such 24-month period constituted the Board of Directors of the Company or the board of directors of Parent (together with any new directors whose election by such Board or board or whose nomination for election by the stockholders of the Company or Parent, as applicable, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved), cease for any reason to constitute a majority of the Board of Directors of the Company or the board of directors of Parent, as applicable, then in office.

Within 30 days following any Change of Control, the Company shall mail a notice to each Holder with a copy to the Trustee stating: (i) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date); (ii) the circumstances and relevant facts regarding such Change of Control (including, in the case of any merger, consolidation or sale of all or substantially all assets, information with respect to pro forma results of operations, cash flow and capitalization after giving effect to such Change of Control); (iii) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and (iv) the instructions determined by the Company, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to the covenant described hereunder. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant described hereunder by virtue thereof.

The phrase "all or substantially all" of the assets of the Company is likely to be interpreted by reference to applicable state law at the relevant time, and will be dependent on the facts and circumstances existing at such time. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" of the assets of the Company has occurred. However, a sale of Receivables in the ordinary course of business will not constitute a Change of Control, regardless of the magnitude of such sale.

The Change of Control purchase feature is a result of negotiations between the Company and the Underwriters. Management has no present intention to engage in a transaction involving a Change of Control, although it is possible that the Company would decide to do so in the future. Subject to the limitations discussed below, the Company could enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect the Company's capital

structure or credit ratings. Restrictions on the ability of the Company and its Restricted Subsidiaries to Incur additional Indebtedness and Preferred Stock of Subsidiaries are contained in the covenants described under "-- Certain Covenants -- Limitation on Indebtedness," "-- Certain Covenants -- Limitation on Liens" and "-- Certain Covenants -- Limitation on Preferred Stock of Subsidiaries." Such restrictions can be waived only with the consent of the

Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenant or provision that may afford Holders of the Notes protection in the event of a highly leveraged transaction, reorganization, restructuring, merger, spin-off or similar transaction that may adversely affect such Holders.

Future indebtedness of the Company may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require such indebtedness to be repurchased or prepaid upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Company. If a Change of Control should occur, the rights of the Holders to receive payment for their Notes would be subject to the prior rights of the holders of any Senior Indebtedness. See "Subordination." Finally, the Company's ability to pay cash to the Holders of Notes following the occurrence of a Change of Control may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. The provisions under the Indenture relating to the Company's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes. As a result, a Holder may not be able to avail itself of its right to require the Company to repurchase the Notes upon a Change of Control.

SAME-DAY SETTLEMENT AND PAYMENT

Settlement for the Notes will be made in immediately available funds. All payments of principal, premium, if any, and interest will be made by the Company in immediately available funds. The Notes will trade in the Same-Day Funds Settlement System of The Depository Trust Company ("DTC") until maturity, and secondary market trading activity for the Notes will therefore settle in immediately available funds.

CERTAIN COVENANTS

Set forth below are descriptions of certain covenants set forth in the Indenture.

Limitation on Indebtedness. (a) The Company will not Incur, and the Company will not permit any Restricted Subsidiary to Incur, directly or indirectly, any Indebtedness or Disqualified Stock if, on the date of such Incurrence and after giving effect thereto, the Consolidated Leverage Ratio exceeds 2.0 to 1.0.

(b) Notwithstanding the foregoing paragraph (a), the Company and its Restricted Subsidiaries may Incur the following Indebtedness:

(1) Permitted Warehouse Indebtedness and Guarantees by the Company of any Permitted Warehouse Indebtedness of Restricted Subsidiaries, provided that (i) on the date of such Incurrence and giving effect to any such Incurrence, the aggregate principal amount of Permitted Warehouse Indebtedness permitted under this clause (1), together with the amount of all then outstanding Warehouse Indebtedness (other than Permitted Warehouse Indebtedness) of the Company and its Restricted Subsidiaries permitted under clause (a) above, shall not exceed 300% of Consolidated Net Worth at such time, and (ii) that to the extent any such Indebtedness ceases to constitute Permitted Warehouse Indebtedness of the Company or a Restricted Subsidiary, such event shall be deemed to constitute the Incurrence of such Indebtedness (and any such Guarantees, but without duplication) by the Company or such Subsidiary, as the case may be;

(2) the Notes and the Subsidiary Guarantees;

(3) Hedging Obligations directly related to: (i) Indebtedness permitted to be Incurred by the Company or the Restricted Subsidiaries pursuant to the Indenture; (ii) Receivables held by the Company or its Restricted Subsidiaries pending sale or that have been sold pursuant to a Warehouse

Facility; or (iii) Receivables with respect to which the Company or any Restricted Subsidiary has an outstanding purchase or offer commitment, financing commitment or security interest;

(4) Indebtedness outstanding on the Issue Date (other than Permitted

Warehouse Indebtedness and Guarantees thereof, which shall be permissible under this paragraph (b) only pursuant to clause (1) above);

(5) Indebtedness or Disqualified Stock issued to and held by the Company or a Wholly Owned Restricted Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of such Indebtedness or Disqualified Stock (other than to the Company or a Wholly Owned Restricted Subsidiary) will be deemed, in each case, to constitute the Incurrence of such Indebtedness or issuance of such Disqualified Stock by the issuer thereof;

(6) Indebtedness or Disqualified Stock of a Restricted Subsidiary Incurred on or prior to the date on which such Subsidiary was acquired by the Company, other than Indebtedness or Disqualified Stock Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company; provided, however, that on the date of such acquisition and after giving effect thereto, the Company would have been able to Incur at least $1.00 of Indebtedness pursuant to paragraph (a) above; and

(7) while no Default or Event of Default exists, Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or clause (4) or (6) of this paragraph (b).

(c) Notwithstanding the foregoing, (i) the Company and its Restricted Subsidiaries may not Incur any Indebtedness (other than the Notes and the Subsidiary Guarantees) if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness unless such Indebtedness is a Junior Subordinated Obligation, (ii) the Company and its Restricted Subsidiaries shall not Incur any Indebtedness if the proceeds thereof are used, directly or indirectly, to Refinance any Junior Subordinated Obligations unless such Indebtedness shall be subordinated to the Notes or the Subsidiary Guarantees, as applicable, to at least the same extent as such Junior Subordinated Obligations, and (iii) no Restricted Subsidiary that is not a Subsidiary Guarantor shall incur, directly or indirectly, any Indebtedness. Unsecured Indebtedness is not deemed to be subordinate or junior to secured Indebtedness merely because it is unsecured.

(d) For purposes of determining compliance with the foregoing covenant: (i) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Company, in good faith, will classify such item of Indebtedness and be required to include the amount and type of such Indebtedness in one of the above clauses; and (ii) an item of Indebtedness may be divided and classified in more than one of the types of Indebtedness described above.

Limitation on Preferred Stock of Restricted Subsidiaries. The Company will not permit any Restricted Subsidiary to Incur, directly or indirectly, any Preferred Stock except:

(a) Preferred Stock issued to and held by the Company or a Wholly Owned Restricted Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of such Preferred Stock (other than to the Company or a Wholly Owned Restricted Subsidiary) will be deemed, in each case, to constitute the Incurrence of such Preferred Stock by the issuer thereof; and

(b) Preferred Stock of a Restricted Subsidiary Incurred or issued and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Company, other than Preferred Stock Incurred or issued in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Restricted Subsidiary or was acquired by the Company; provided, however, that on the date of such acquisition and after giving effect thereto, the Company would have been able to Incur at

least $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "Limitation on Indebtedness."

Limitation on Liens. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien of any nature whatsoever on any of its properties (including Capital Stock of a Subsidiary), whether owned at the Issue Date or thereafter acquired, other than Permitted Liens, without effectively providing that the Notes shall be secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

Limitation on Restricted Payments. (a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment: (i) a Default shall have occurred and be continuing (or would result therefrom); (ii) the Company is not able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "Limitation on Indebtedness"; or (iii) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of: (A) 33% of the Consolidated Adjusted Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter prior to the date of such Restricted Payment for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); and (B) the aggregate Net Cash Proceeds received by the Company from the issuance or sale after the Issue Date of (1) Capital Stock of the Company (other than Disqualified Stock) or (2) debt securities of the Company, but only if, when and to the extent such debt securities have been converted into any such Capital Stock (other than, in each case, an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees).

(b) While no Default or Event of Default exists, the provisions of the foregoing paragraph (a) shall not prohibit: (i) any purchase or redemption of Capital Stock or Junior Subordinated Obligations of the Company to the extent made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to (A) a Subsidiary of the Company or (B) an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees, except to the extent that the funds used by such plan or trust are attributable to employee contributions); provided, however, that (A) such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale shall be excluded from the calculation of amounts under clause (iii)(B) of paragraph (a) above; (ii) any payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Junior Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of the Company that is permitted to be Incurred pursuant to the covenant described under "Limitation on Indebtedness"; provided, however, that, such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments; and (iii) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with the covenant described hereunder; provided, however, that such dividend shall be included in the calculation of the amount of Restricted Payments.

Limitation on Restrictions on Distributions from Restricted Subsidiaries. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary (a) to pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company or any Restricted Subsidiary, (b) to make any loans or advances to the Company or any Restricted Subsidiary or (c) to transfer any of its property or assets to the Company or any Restricted Subsidiary, except: (i) any encumbrance or restriction pursuant to an agreement in effect at the Issue Date and listed on a schedule to the Indenture; (ii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement applicable to such Subsidiary prior to the date on which such Subsidiary was acquired by the Company (other than an agreement entered into in connection

with, or in anticipation of, the transaction or series of related transactions

pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company) and outstanding on such date; (iii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to any other agreement contained in any amendment to an agreement referred to in clause (i) or (ii) of this covenant or this clause (iii); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such amendment are no less favorable to the Holders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in the agreements referred to in clause (i) or (ii) of the covenant described hereunder, as the case may be; (iv) any such encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder; (v) in the case of clause (c) above, restrictions contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary otherwise permissible under the Indenture to the extent such restrictions restrict the transfer of the property subject to such security agreements or mortgages; (vi) with respect to the ability of a Restricted Subsidiary to pay dividends or make any other distributions on its Capital Stock to the Company, any Permitted Warehouse Indebtedness Limitation; and (vii) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition.

Limitation on Sales of Assets and Subsidiary Stock. (a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless: (i) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of any non-cash consideration), as determined in good faith by the Board of Directors, of the shares and assets subject to such Asset Disposition and at least 85% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or Temporary Cash Investments; (ii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be):

(A) first, to the extent the Company or such Restricted Subsidiary elects either (x) to acquire Additional Assets or (y) to prepay, repay, redeem or purchase Senior Indebtedness of the Company or such Restricted Subsidiary, as the case may be (other than in either case Indebtedness owed to the Company or an Affiliate of the Company), in each case within 180 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), for the Company to make an offer to the Holders of the Notes to purchase Notes pursuant to and subject to the conditions contained in the Indenture; and

(C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to any application not prohibited by the Indenture;

and (iii) at the time of such Asset Disposition no Default shall have occurred and be continuing (or would result therefrom). Pending application of Net Available Cash pursuant to this covenant, such Net Available Cash shall be invested in Temporary Cash Investments.

For the purposes of this covenant, the following are deemed to be cash: (x) the assumption of Indebtedness (other than Junior Subordinated Obligations) of the Company or any Restricted Subsidiary, and the release of the Company or such Subsidiary from all liability on such Indebtedness, in connection with such Asset Disposition and (y) securities received by the Company or any Restricted Subsidiary from the transferee that are promptly converted by the Company or such Subsidiary into cash or Temporary Cash Investments.

(b) In the event of an Asset Disposition that requires an offer to purchase the Notes, the Company will be required to purchase Notes tendered pursuant to an offer by the Company for the Notes at a purchase price of 100% of their principal amount plus accrued but unpaid interest in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. If the aggregate purchase price of Notes tendered pursuant to such offer is less than the Net Available Cash allotted to the purchase

thereof, the Company will be permitted to apply the remaining Net Available Cash in accordance with clause (a)(ii)(C) above. The Company shall not be required to

make such an offer to purchase Notes pursuant to this covenant if the Net Available Cash available therefor is less than $1,000,000 (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to any subsequent Asset Disposition).

(c) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the covenant described hereunder. To the extent that the provisions of any securities laws or regulations conflict with provisions of the covenant described hereunder, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

Limitation on Affiliate Transactions. The Company will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including without limitation the making of any loan, advance, Guarantee or capital contribution to or for the benefit of, the purchase, sale, lease or exchange of any property with, the entering into or amending of employee compensation arrangements with, or the rendering of any service) with or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction") unless the terms thereof: (i) are in the ordinary course of business and consistent with past practice; (ii) are fair to the Company or such Restricted Subsidiary and are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not an Affiliate; (iii) if such Affiliate Transaction involves an amount in excess of $500,000, (A) are set forth in writing and (B) have been approved by a majority of the members of the Board of Directors having no personal stake in such Affiliate Transaction; and (iv) if such Affiliate Transaction involves an amount in excess of $3,000,000, have been determined by a nationally recognized investment banking firm to be fair, from a financial standpoint, to the Company and its Restricted Subsidiaries.

The provisions of the foregoing paragraph shall not apply to (a) transactions exclusively between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries, (b) any Restricted Payment permitted to be made under the covenant described under "-- Limitation on Restricted Payments," (c) any employment or related arrangement entered into by the Company or any Restricted Subsidiary in the ordinary course of business on terms customary in the consumer finance business, provided any such arrangement is approved by the disinterested members of the Board of Directors, (d) customary directors fees and indemnities, and (e) payments required by the Tax Sharing Agreement or any renewal thereof on substantially similar terms, provided, however, in the case of each of the foregoing clauses (a) through (d), that such transactions are not otherwise prohibited by the Indenture. The provisions of clause (iv) of the foregoing paragraph shall not apply to transactions between the Company and PEC pursuant to agreements in effect on the Issue Date and described under "Certain Transactions" and renewals thereof on substantially similar terms.

Merger and Consolidation. The Company will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all its assets to, any Person, unless: (i) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America or any State thereof and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all of the Company's obligations under the Notes and the Indenture; (ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Restricted Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Restricted Subsidiary at the time of such transaction), no Default shall have occurred and be continuing; (iii) immediately after giving effect to such transaction, the Successor Company would be able to incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "Limitation on Indebtedness;" (iv) immediately after giving effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of the Company prior to such transaction; and (v) the Company

shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

The Successor Company shall be the successor to the Company and shall

succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, but the predecessor Company, in the case of a lease, shall not be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

The Indenture will provide that no Restricted Subsidiary may consolidate with or merge with or into (whether or not such Restricted Subsidiary is the surviving Person) another Person, whether or not affiliated with such Restricted Subsidiary, unless (i) subject to the provisions of the following paragraph, the Person formed by or surviving any such consolidation or merger (if other than such Restricted Subsidiary) assumes all the obligations of such Restricted Subsidiary, pursuant to a supplemental indenture, in form and substance satisfactory to the Trustee, under the Indenture; (ii) immediately after giving effect to such transaction, no Default or Event of Default exists; (iii) such Restricted Subsidiary, or any Person formed by or surviving any such consolidation or merger, would have Consolidated Net Worth (immediately after giving effect to such transaction) equal to or greater than the Consolidated Net Worth of such Restricted Subsidiary immediately preceding the transaction; and (iv) the Restricted Subsidiary would be permitted, immediately after giving effect to such transaction, to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) in the covenant described above under the caption "Certain Covenants -- Limitation on Indebtedness"; provided that the foregoing provisions will not restrict the ability of a Subsidiary to consolidate or merge with the Company or a Wholly Owned Restricted Subsidiary.

The Indenture will provide that, in the event of a sale or other disposition of all of the assets of any Subsidiary (other than to or with the Company or a Wholly Owned Restricted Subsidiary), by way of merger, consolidation or otherwise, or a sale or other disposition of all of the Capital Stock of any Subsidiary (other than to the Company or a Wholly Owned Restricted Subsidiary), then such Restricted Subsidiary (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all of the Capital Stock of such Subsidiary) or the corporation acquiring the property (in the event of a sale or other disposition of all of the assets of such Restricted Subsidiary) will be released and relieved of any obligations under its Subsidiary Guarantee; provided that the Net Cash Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

Limitation on Investment Company Status. The Company shall not take, and shall not permit any Restricted Subsidiary to take, any action, or otherwise permit to exist any circumstance, that would require the Company or such Restricted Subsidiary to register as an "investment company" under the Investment Company Act of 1940, as amended.

Line of Business. The Company will not, and will not permit any Subsidiary to, engage in any line of business that is not a Related Business.

Payments for Consent. The Indenture will provide that neither the Company nor any Restricted Subsidiary will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder of any Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

SEC Reports. Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall file with the SEC and provide the Trustee and Holders with such annual reports, quarterly reports and such other information, documents and reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such information, documents and other reports to be so filed and provided at the times specified for the filing of such information, documents and reports under such Sections.

DEFAULTS

An Event of Default is defined in the Indenture as: (i) a default in the payment of interest on the Notes when due, continued for 30 days; (ii) a default in the payment of principal of and premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration of acceleration or otherwise; (iii) the failure by the Company or any Subsidiary Guarantor to comply with any of its obligations in the covenants

described under "Change of Control," "Subsidiary Guarantees" or under "Certain Covenants -- Merger and Consolidation," or "-- Limitation on Sales of Assets and Subsidiary Stock"; (iv) the failure by the Company or any Subsidiary Guarantor to comply with any of its obligations in the covenants described above under "Certain Covenants -- Limitation on Affiliate Transactions", "-- Limitation on Indebtedness," "-- Limitation on Preferred Stock of Restricted Subsidiaries," "-- Limitation on Liens," "-- Limitation on Restricted Payments," "-- Limitation on Restrictions on Distributions from Restricted Subsidiaries," "-- Limitation on Investment Company Status" or "-- SEC Reports" and 30 days or more shall have expired after a Senior Officer of the Company first becomes aware of such failure; (v) the failure by the Company or any Subsidiary Guarantor to comply for 30 days after notice with its other agreements contained in the Indenture; (vi) Indebtedness of the Company or any Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $2,000,000 (the "cross acceleration provision"); (vii) certain events of bankruptcy, insolvency or reorganization of the Company or a Subsidiary (the "bankruptcy provisions"); (viii) any judgment or decree for the payment of money in excess of $1,000,000 is rendered against the Company or a Subsidiary, remains outstanding for a period of 60 days following such judgment and is not discharged, waived or stayed (the "judgment default provision"); or (ix) any Subsidiary Guarantee ceases to be effective (except if permitted by the Indenture), is held to be invalid in a judicial proceeding or its validity is contested by the Company or any Restricted Subsidiary. However, a default under clause (v) will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such notice.

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes may declare the principal of, premium, if any, and accrued but unpaid interest on all the Notes to be due and payable. Upon such a declaration, such principal, premium, if any, and interest shall be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company occurs and is continuing, the principal of, premium, if any, and any accrued but unpaid interest on all the Notes will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the Notes. Under certain circumstances, the Holders of a majority in principal amount of the outstanding Notes may rescind any such acceleration with respect to the Notes and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the Notes unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless (i) such Holder has previously given the Trustee notice that an Event of Default is continuing, (ii) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy, (iii) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense, (iv) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity and (v) the Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or

the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each Holder of the Notes notice of the Default within 60 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers determines that withholding notice is not opposed to the interest of the Holders. In addition, the Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Company also is required to deliver to the Trustee, within 30 days after a

Senior Officer of the Company or any Subsidiary becomes aware of the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action the Company or such Subsidiary is taking or proposes to take in respect thereof.

AMENDMENTS AND WAIVERS

Subject to certain exceptions, the Indenture may be amended with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange for the Notes) and any past Default or compliance with any provisions may be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. However, without the consent of each Holder of an outstanding Note affected thereby, no amendment or waiver may, among other things, (i) reduce the amount of Notes whose Holders must consent to an amendment, (ii) reduce the rate of or extend the time for payment of interest on any Note, (iii) reduce the principal of or extend the Stated Maturity of any Note, (iv) reduce the premium payable upon the redemption or acceleration of any Note or change the time at which any Note may be redeemed as described under "Optional Redemption", (v) make any Note payable in money other than that stated in the Note, (vi) impair the right of any Holder to receive payment of principal of, premium, if any, and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes, (vii) make any change to the provisions of the Indenture relating to subordination of the Notes, (viii) release any Subsidiary Guarantee of the Notes (except in connection with any such Subsidiary being designated an Unrestricted Subsidiary or its Capital Stock or assets being disposed of, in each case to the extent permissible under the Indenture), or (ix) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions.

Without the consent of any Holder, the Company and Trustee may amend the Indenture to cure any ambiguity, omission, defect or inconsistency, to provide for the assumption by a successor corporation of the obligations of the Company or any Subsidiary Guarantor under the Indenture, to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code), to add guarantees with respect to the Notes, to secure the Notes, to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power conferred upon the Company, to make any change that does not adversely affect the rights of any Holder or to comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the Indenture becomes effective, the Company will mail to Holders a notice briefly describing such amendment. However, the failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of the amendment.

TRANSFER

A Holder will be able to register the transfer of or exchange the Notes only in accordance with the provisions of the Indenture. The Company may require payment of a sum sufficient to cover any tax,

assessment or other governmental charge payable in connection with certain registrations of transfers and exchanges.

DEFEASANCE

The Company and the Subsidiary Guarantors at any time may terminate all their respective obligations under the Notes, the Subsidiary Guarantees and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes. The Company at any time may terminate its obligations under "Change of Control" and under the covenants described under "Certain Covenants" (other than the covenant described under "-- Merger and Consolidation"), the operation of the cross acceleration provision, the bankruptcy provisions with respect to Subsidiaries and the judgment default provision described under "-- Defaults" and the limitations contained in clauses (iii) and (iv) under "Certain Covenants -- Merger and

Consolidation" ("covenant defeasance").

The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect thereto (other than an Event of Default with respect to the obligations referred to in the first sentence of the immediately preceding paragraph). If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default under the provisions described in the last sentence of the foregoing paragraph.

In order to exercise either defeasance option, the Company must irrevocably deposit in trust (the "defeasance trust") with the Trustee unencumbered money or U.S. Government Obligations for the payment of principal of, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable federal income tax law).

CONCERNING THE TRUSTEE

American Stock Transfer & Trust Company is to be the Trustee under the Indenture and has been appointed by the Company as Registrar and Paying Agent with regard to the Notes.

The Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that if an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

GOVERNING LAW

The Indenture provides that it and the Notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

BOOK-ENTRY, DELIVERY AND FORM

The Notes will initially be issued in the form of one or more Global Notes (the "Global Note"). The Global Note will be deposited on the Issue Date with The Depository Trust Company (the "Depositary") or its custodian and registered in the name of Cede & Co., as nominee of the Depositary (such nominee being referred to herein as the "Global Note Holder").

The Company has been advised by the Depositary that the Depositary is a limited-purpose trust company that was created to hold securities for its participating organizations (collectively, the "Participants" or the "Depositary's Participants") and to facilitate the clearance and settlement of transactions in such securities between Participants through electronic book-entry changes in accounts of its Participants. The Depositary's Participants include securities brokers and dealers (including the Underwriters), banks and trust companies, clearing corporations and certain other organizations. Access to the Depositary's system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the "Indirect Participants" or the "Depositary's Indirect Participants") that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of the Depositary only through the Depositary's Participants or the Depositary's Indirect Participants.

The Company expects that pursuant to procedures established by the Depositary (i) upon deposit of the Global Note, the Depositary will credit the accounts of Participants designated by the Underwriters with portions of the principal amount of the Global Note and (ii) ownership of the Notes evidenced by

the Global Note will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by the Depositary (with respect to the interests of the Depositary's Participants), the Depositary's Participants and the Depositary's Indirect Participants. Prospective purchasers are advised that the laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer Notes evidenced by the Global Note will be limited to such extent.

So long as the Global Note Holder is the registered owner of any Notes, the Global Note Holder will be considered the sole Holder under the Indenture of any Notes evidenced by the Global Note for the purposes of receiving payment on the Notes, receiving notices, and for all other purposes under the Indenture and the Notes. Beneficial owners of Notes evidenced by the Global Note will not be considered the owners or Holders thereof under the Indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the Trustee thereunder. Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records of the Depositary or for maintaining, supervising or reviewing any records of the Depositary relating to the Notes. Accordingly, each person owning a beneficial interest in the Global Note must rely on the procedures of the Depositary, and, if such person is not a Participant, on the procedures of the Participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. The Company understands that under existing industry practices, in the event that the Company requests any action of holders or that an owner of a beneficial interest in the Global Note desires to give or take any action which a holder is entitled to give or take under the Indenture, the Depositary would authorize the Participants holding the relevant beneficial interest to give or take such action and such Participants would authorize beneficial owners owning through such Participants to give or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payments in respect of the principal of, and premium, if any, and interest on any Notes registered in the name of the Global Note Holder on the applicable record date will be payable by the Trustee to or at the direction of the Global Note Holder in its capacity as the registered Holder under the Indenture. Under the terms of the Indenture, the Company and the Trustee may treat the persons in whose names Notes, including the Global Note, are registered as the owners thereof for the purpose of receiving such payments. Consequently, neither the Company nor the Trustee has or will have any responsibility or liability for the payment of such amounts to beneficial owners of the Notes. The Company believes, however, that it is currently the policy of the Depositary to immediately credit the accounts of the relevant Participants with such payments, in amounts proportionate to their respective holdings of beneficial interests in the relevant security as shown on the records of the Depositary. Payments by the Depositary's Participants and the Depositary's

Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practice and will be the responsibility of the Depositary's Participants or the Depositary's Indirect Participants.

If (i) the Company notifies the Trustee in writing that the Depositary is no longer willing or able to act as a depositary and the Company is unable to locate a qualified successor within 90 days, (ii) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in other than global form, or (iii) there shall have occurred and be continuing a Default or an Event of Default with respect to any of the Notes represented by the Global Note, then, upon surrender by the Global Note Holder of its Global Note, Notes in certificated form will be issued to each person that the Global Note Holder and the Depositary identify as being the beneficial owner of the related Notes.

Neither the Company nor the Trustee will be liable for any delay by the Global Note Holder or the Depositary in identifying the beneficial owners of Notes and the Company and the Trustee may conclusively rely on, and will be protected in relying on, instructions from the Global Note Holder or the Depositary for all purposes.

CERTAIN DEFINITIONS

"Additional Assets" means: (i) any operating property or assets (including Receivables, but excluding Indebtedness and Capital Stock of the acquiring Person) used or useful in a Related Business; (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; provided, however, that any such Restricted Subsidiary

described in clause (ii) or (iii) is primarily engaged in a Related Business.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided that a Person shall be deemed to have such power with respect to the Company if such Person is the beneficial owner of Capital Stock representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable). The terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Asset Disposition" means (i) any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of the definition as a "disposition"), but excluding any merger, consolidation or sale of assets of the Company subject to and permitted by the first paragraph of the covenant described under "Certain Covenants -- Merger and Consolidation," of: (a) any shares of Capital Stock of a Subsidiary (other than director's qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Subsidiary); (b) all or substantially all the assets of, or of any division or line of business of the Company or any Restricted Subsidiary; (c) any other assets of the Company or any Restricted Subsidiary with a book or fair market value, together with other assets disposed of in the same or related transactions, exceeding $500,000; or (d) any Excess Spread Receivables (other than, in the case of clauses (a), (b), (c) or (d) above, (1) a disposition of Receivables in the ordinary course of business, (2) a disposition by a Restricted Subsidiary to the Company or by the Company or a Subsidiary to a Wholly Owned Restricted Subsidiary or (3) any grant of a Permitted Lien) or (ii) the issuance of Capital Stock by any Restricted Subsidiary to any Person other than the Company or any Wholly Owned Restricted Subsidiary.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day which is not a Legal Holiday.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP. The amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consolidated Adjusted Net Income" means, for any period, (a) Consolidated Net Income minus (b) gain on sale of loans and net unrealized gain on mortgage related securities, plus (c) provision for credit losses, amortization and depreciation (including amortization of excess servicing rights), in each case for such period and for the Company and its Restricted Subsidiaries.

"Consolidated Leverage Ratio" as of any date of determination means the ratio of (i) the aggregate amount of all Indebtedness of the Company and its Restricted Subsidiaries, excluding (A) Permitted Warehouse Indebtedness and Guarantees thereof permitted to be Incurred pursuant to clause (b)(1) of the

covenant described under "Certain Covenants -- Limitation on Indebtedness," (B) Hedging Obligations permitted to be Incurred pursuant to clause (b)(3) of the covenant described under "Certain Covenants -- Limitation on Indebtedness" and (C) Junior Subordinated Obligations of the Company to (ii) the Consolidated Net Worth of the Company.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Subsidiaries for such period determined in accordance with GAAP; provided, however, that there shall not be included in such Consolidated Net Income: (i) any net income of any person if such Person is not a Restricted Subsidiary, except that (A) subject to the exclusion contained in clause (iv) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (iii) below) and (B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income; (ii) any net income (or loss) of any Person acquired by the Company or a Restricted Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition; (iii) any net income of any Restricted Subsidiary if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that (A) subject to the exclusion contained in clause (iv) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income to the extent that cash could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause) and (B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income; (iv) any gain (but not loss) realized upon the sale or other disposition of any assets of the Company or its consolidated Restricted Subsidiaries (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person; (v) extraordinary gains or losses; and (vi) the cumulative effect of a change in accounting principles, in each case determined in accordance with GAAP.

"Consolidated Net Worth" means the consolidated stockholders' equity of the Company and its Subsidiaries, as determined in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company for which financial statements are available, less (i) all write-ups by the Company or any Restricted Subsidiary (other than write-ups resulting from foreign currency translations, write-ups of tangible assets of a going concern business made within 12 months after acquisition thereof and write-ups of Excess Spread Receivables or mortgage servicing rights in accordance with GAAP), (ii) all Investments in unconsolidated Subsidiaries or Persons that are not Restricted Subsidiaries (except Temporary Cash Investments), (iii) all unamortized debt discount and expense and unamortized deferred charges of the Company and its Restricted Subsidiaries, in each case as of such date and (iv) any amounts attributable to Disqualified Stock. The "Consolidated Net Worth" of a Restricted Subsidiary means the consolidated net worth of such Subsidiary and its Subsidiaries (if any), determined on an equivalent basis. For purposes of this definition, "deferred charges" does not include deferred taxes, costs associated with mortgage servicing rights and loan origination costs, in each case to the extent deferred in accordance with GAAP).

"Currency Agreement" means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement to which such Person is a party or a beneficiary.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" means, as of any date of determination, any Senior Indebtedness if the unpaid principal amount thereof, or the amount of Senior Indebtedness committed to be extended by the lender or lenders under the related credit facility, equals or exceeds $1,000,000 on such date.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security in to which it is convertible

or for which it is exchangeable) or upon the happening of any event (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holders thereof, in each case in whole or in part on or prior to the first anniversary of the Stated Maturity of the Notes.

"Eligible Excess Spread Receivables" means Excess Spread Receivables of the Company and its Restricted Subsidiaries, other than (i) any Excess Spread Receivables created as the result of the securitization or sale of other Excess Spread Receivables, and (ii) any Excess Spread Receivables attributable to any whole loan sale of Receivables, unless the Person or Persons holding such Receivables (a) is a GSE or (b) has then outstanding senior unsecured and unsupported long-term debt rated Baa2 or better by Moody's Investors Service, Inc. and BBB or better by Standard & Poor's Ratings Group.

"Excess Spread" means (i) with respect to a "pool" of Receivables that has been sold to a trust or other Person in a securitization, the excess of (a) the weighted average coupon on each pool of Receivables sold over (b) the sum of the pass-through interest rate plus a normal servicing fee, a trustee fee, an insurance fee and an estimate of annual future credit losses related to such assets, in each case calculated in accordance with any applicable GAAP, and (ii) with respect to Receivables that have been sold to a Person in a whole loan sale, the cash flow of the Company and its Restricted Subsidiaries from such Receivables, net of, to the extent applicable, a normal servicing fee, a trustee fee, an insurance fee and an estimate of annual future credit losses related to such assets, in each case calculated in accordance with any applicable GAAP.

"Excess Spread Receivables" of a Person means the contractual or certificated right to Excess Spread capitalized on such Person's consolidated balance sheet (the amount of which shall be the present value of the Excess Spread, calculated in accordance with GAAP, net of any allowance for losses on loans sold with recourse or other liability allocable thereto, to the extent not otherwise reflected in such amount). Excess Spread Receivables (a) include mortgage backed securities attributable to Receivables sold by the Company or any Subsidiary, and (b) do not include any mortgage servicing rights.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Excluded Person" means (i) any Existing Holder, (ii) any corporation or limited liability company controlled by one or more Existing Holders, (iii) any partnership the general partners of which are or are corporations controlled by one or more Existing Holders and (iv) any trust of which any Existing Holder is the trustee and at least 80% of the beneficial interests in which are owned by such Existing Holder and the spouse or lineal descendants of such Existing Holder. For purposes of this definition, "control" means the beneficial ownership of at least 80% of the Voting Stock of a Person.

"Existing Holders" means Robert Nederlander, Eugene I. Schuster, Jerome J. Cohen, Herbert B. Hirsch and Don A. Mayerson.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, including those set forth in (i) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (ii) statements and pronouncements of the Financial Accounting Standards Board, (iii) such other statements by such other entity as approved by a significant segment of the accounting profession and (iv) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC and releases of the Emerging Issues Task Force.

"GSE" means Federal National Mortgage Association or Federal Home Loan Mortgage Corporation.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss

in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" means any person Guaranteeing any obligation.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holders" or "Noteholders" means the Person in whose name a Note is registered on the Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication): (i) the principal of and premium, if any, in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all Capital Lease Obligations of such Person; (iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (including any such obligations under repurchase agreements, but excluding trade accounts payable and expense accruals arising in the ordinary course of business not overdue by more than 60 days); (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction; (v) the amount of all obligations of such Person with respect to the redemption, repayment or

other repurchase of any Disqualified Stock (but excluding any accrued dividends) or, in the case of a Subsidiary of such Person, any Preferred Stock (but excluding any accrued dividends); (vi) Warehouse Indebtedness; (vii) in connection with each sale of any Excess Spread Receivables, the maximum aggregate claim (if any) that the purchaser thereof could have against such Person if the payments anticipated in connection with such Excess Spread Receivables are not collected; (viii) all obligations of the type referred to in clauses (i) through (vii) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee; (ix) all obligations of the type referred to in clauses (i) through (viii) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and (x) to the extent not otherwise included in this definition, Hedging Obligations of such Person. Notwithstanding the foregoing, "Indebtedness" shall not include obligations under the Tax Sharing Agreement or any renewal or other modification thereof that complies with the covenant described under "Certain Covenants -- Limitation on Affiliate Transactions." Except in the case of Warehouse Indebtedness (the amount of which shall be determined in accordance with the definition thereof), the amount of unconditional Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above. The amount of any Indebtedness under clause (viii) of this definition shall be equal to the amount of the outstanding obligation for which such Person is responsible or liable, directly or indirectly, including by way of Guarantee. Notwithstanding the foregoing, any securities issued in a securitization by a special purpose owner trust or similar entity formed by or on behalf of a Person and to which Receivables have been sold or otherwise transferred by or on behalf of such Person or its Restricted Subsidiaries shall not be treated as Indebtedness of such Person or its Restricted Subsidiaries under the Indenture, regardless of whether such securities are treated as indebtedness for tax purposes, provided (1) neither the Company nor any of its Restricted Subsidiaries (other than Special Purpose Subsidiaries) (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), except for credit support in the form of "over-collateralization" of the senior certificates issued in, or subordination of or recourse to all or a portion of Excess Spread Receivables attributable to, such securitization, in each case to the extent reflected in the book value of such Excess Spread Receivables, or (b) is directly or indirectly liable (as a guarantor or otherwise), and (2) no

default with respect to such securities (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"Interest-only Certificate" means a certificate issued in a securitization of a pool of Receivables which pays a fixed or floating interest rate on a notional principal amount.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement, repurchase agreement, futures contract or other financial agreement or arrangement designed to protect the Company or any Restricted Subsidiary against fluctuations in interest rates.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business, other than Receivables, that are recorded as trade accounts on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness (including Receivables) or other similar instruments issued by, such Person. For purposes of the definitions of "Unrestricted Subsidiary" and "Restricted Payment" and the covenant described under "Certain Covenants -- Limitation on Restricted Payments," (i) "Investment" shall include the greater of the fair market value and the book value of the Investments by the Company and its Restricted Subsidiaries in such Subsidiary at the time it is so designated; and (ii) any property transferred to or from a Person shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Issue Date" means the date on which the Notes are originally issued.

"Junior Subordinated Obligation" is defined under "Subordination."

"Legal Holiday" means any Saturday, Sunday or other day on which banks in the States of New York or Georgia are authorized or obligated by law to be closed for business.

"Lien" means (i) any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof) and (ii) any claim (whether direct or indirect through subordination or other structural encumbrance) against any Excess Spread Receivables sold or otherwise transferred by such Person to a buyer, unless such Person is not liable for any losses thereon.

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payment received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form) in each case net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, (ii) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be, repaid out of the proceeds from such Asset Disposition, and (iii) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Non-Recourse Debt" means indebtedness (i) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides a Guarantee or other credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable (as the primary obligor or otherwise), or (c) constitutes the lender; and (ii) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries (other than the Notes and the Subsidiary Guarantees) to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"Parent" means Mego Financial and its successors, but only while such company beneficially owns 40% or more of the Voting Stock of the Company.

"PEC" means Preferred Equities Corporation and its successors.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary: (i) in a Wholly Owned Restricted Subsidiary or a Person that, upon the making of such Investment, will become a Wholly Owned Restricted Subsidiary; provided, however, that the primary business of such Wholly Owned Restricted Subsidiary is a Related Business; (ii) in another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Wholly Owned Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business; (iii) while no Default or Event of Default exists, any Investment in Persons engaged in a Related Business, provided the aggregate amount of all Investments made by the Company and its Restricted Subsidiaries after the Issue Date that constitute Permitted Investments under this clause (iii)(and, without

limitation, not including Permitted Investments under clause (i) above), on any date (the "date of determination"), may not exceed the sum of (a) $6,000,000, plus (b) the excess, if any, of (A) 25% of Consolidated Net Income during the period (treated as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of the fiscal quarter ended most recently prior to the date of determination for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, zero), over (B) the aggregate amount of Restricted Payments made by the Company and its Restricted Subsidiaries after the Issue Date (other than a Restricted Payment permitted to be made pursuant to clause (i) or (ii) of paragraph (b) of the covenant described above under "Certain Covenants -- Limitation on Restricted Payments"), (iv) in the form of Temporary Cash Investments; (v) in the form of receivables (other than Receivables) owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (vi) in the form of payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; (vii) in the form of loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary in an aggregate amount not to exceed $250,000 outstanding at any time; (viii) in the form of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments; (ix) in any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to the covenant described under "Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock", provided the amount thereof does not exceed 10% of Consolidated Net Worth; (x) in the form of Receivables of the Company or any Restricted Subsidiary; and (xi) in the form of Excess Spread Receivables, subordinated certificates or Interest-only Certificates arising from a securitization or sale of Receivables by the Company or any of its Wholly Owned Restricted Subsidiaries (including any securitization of a "pool" of receivables that, in addition to Receivables, also includes loans, leases or other receivables of Persons other than the Company or any Wholly Owned Restricted Subsidiary).

"Permitted Liens" means, with respect to the Company and any Restricted Subsidiary: (i) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or for the payment of rent, in each case Incurred in the ordinary course of business; (ii) Liens imposed by

law, such as carriers', warehousemen's and mechanics' Liens, in each case for amounts not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review; (iii) Liens for property taxes not yet subject to penalties for nonpayment or which are being contested in good faith and by appropriate proceedings; (iv) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property, or leases, subleases or other Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (v) Liens securing Indebtedness of such Person Incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, equipment (including vehicles) of such Person (but excluding Capital Stock of another Person); provided, however, that the Lien may not extend to any other property owned by such Person or any of its Subsidiaries at the time the Lien is Incurred, and the Indebtedness secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien; (vi) Liens on Receivables of the Company or a Restricted Subsidiary, as the case may be, to secure Indebtedness permitted under the provisions described in clause (b)(1) under "-- Certain Covenants -- Limitation on Indebtedness"; (vii) Liens on Excess Spread Receivables (or on the Capital Stock of any

Person substantially all the assets of which are Excess Spread Receivables); provided, however, that no such Liens may encumber Eligible Excess Spread Receivables of the Company and its Restricted Subsidiaries in an amount equal to the sum of (1) the Specified Percentage in effect at the creation of such Lien (the "determination date") of the unpaid principal amount as of the determination date of the Notes and all other unsecured Indebtedness of the Company and its Restricted Subsidiaries that does not constitute Junior Subordinated Obligations (collectively, the "Specified Unsecured Indebtedness"; the amount under this subclause (1) being the "Base Set Aside"), plus (2) 25% of the excess, if any, of (x) the total amount of Eligible Excess Spread Receivables shown on the balance sheet of the Company and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the determination date, over (y) the Base Set Aside, provided that the sum of the Base Set Aside plus the amount in this clause (2) (the "Excess Set Aside") shall not exceed 200% of Specified Unsecured Indebtedness, plus (3) 10% of the excess, if any, of (x) the amount under the foregoing subclause (2)(x), over (y) the sum of the Base Set Aside plus the Excess Set Aside; (viii) Liens existing on the Issue Date and listed on a schedule to the Indenture; (ix) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Restricted Subsidiary of such Person; provided, however, that (A) such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Subsidiary or being designated a Restricted Subsidiary and (B) such Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries; (x) Liens on property at the time such Person or any of its Restricted Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Restricted Subsidiary of such Person; provided, however, that (A) such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and (B) such Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries; (xi) Liens securing Indebtedness or other obligations of a Restricted Subsidiary of such Person owing to such Person or a Wholly Owned Restricted Subsidiary of such Person; (xii) Liens (other than on any Excess Spread Receivables) securing Hedging Obligations of the Company or such Restricted Subsidiary so long as such Hedging Obligations relate to Indebtedness that is, and is permitted under the Indenture to be, secured by a Lien on the same property securing such Hedging Obligations; (xiii) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness of the Company or such Restricted Subsidiary secured by any Lien referred to in the foregoing clauses (v), (viii) and (ix); provided, however, that (A) such new Lien shall be limited to all or part of the same property that secured the original Lien (plus improvements to or on such property), (B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (1) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (v), (viii) or (ix), as the case may be, at the time the original Lien became a Permitted Lien and (2) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement and

(C) the Average Life of such Indebtedness is not decreased, and (xiv) any Lien in the form of "over-collateralization" of the senior certificates issued in, or subordination of or recourse to all or a portion of Excess Spread Receivables of the Company or any Subsidiary attributable to a securitization of Receivables, in each case to the extent reflected in the book value of such Excess Spread Receivables, which Lien is in favor of the holders of other interests in the trust relating to such securitization, provided, however, that notwithstanding any of the foregoing clauses, no Lien on Eligible Excess Spread Receivables, other than a Lien permissible under the foregoing clauses (vii) and (xiv), shall be a Permitted Lien. Notwithstanding the foregoing, "Permitted Liens" will not include any Lien described in clause (v), (ix) or (x) above to the extent such Lien applies to any Additional Assets acquired directly or indirectly from Net Available Cash pursuant to the covenant described under "Certain Covenants -- Limitation on Sale of Assets and Subsidiary Stock." Without limitation, for purposes of clause (vii) of this definition, the Incurrence of any Indebtedness (or an increase in the amount of any Indebtedness) secured by a Lien on Excess Spread Receivables shall be considered the incurrence of a new Lien on such Excess Spread Receivables, irrespective of whether a Lien securing other Indebtedness (or a lesser amount of Indebtedness) already exists on such assets at the time of such Incurrence.

"Permitted Warehouse Indebtedness" means Warehouse Indebtedness in connection with a Warehouse Facility; provided, however, that (i) the assets being financed are eligible to be recorded as held for sale on the

consolidated balance sheet of the Company and its Restricted Subsidiaries in accordance with GAAP, (ii) Warehouse Indebtedness constitutes Permitted Warehouse Indebtedness only (a) if, in the case of Warehouse Indebtedness under a Purchase Facility, recourse with respect to the obligations of the Company and its Restricted Subsidiaries under such Warehouse Facility is limited to the Receivables financed thereby or (b) in the case of any other Warehouse Indebtedness, to the extent of the lesser of (A) the amount advanced by the lender with respect to the Receivables financed under the Warehouse Facility, and (B) the principal amount of such Receivables, and (iii) any such Indebtedness has not been outstanding in excess of 360 days.

"Permitted Warehouse Indebtedness Limitation" means, with respect to any Warehouse Indebtedness of any Restricted Subsidiary, any covenant in the credit documents under which such Warehouse Indebtedness is incurred to maintain the consolidated net worth of such Restricted Subsidiary at a specified dollar amount, provided that such covenant does not require such consolidated net worth to be maintained at a level in excess of 85% of the consolidated net worth of such Restricted Subsidiary shown on the most recently available consolidated balance sheet of such Restricted Subsidiary at the time such credit documents are entered into, amended or renewed. For purposes of this definition, "consolidated net worth" shall be determined in accordance with GAAP.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such corporation.

"Principal" of a Note means the principal of the Note payable on the Note which is due or overdue or is to become due at the relevant time.

"Public Equity Offering" means an underwritten primary public offering of Common Stock of the Company pursuant to an effective registration statement under the Securities Act.

"Purchase Facility" means any Warehouse Facility pursuant to which the Company or a Restricted Subsidiary sells Receivables to a financial institution or other Person and retains a right of first refusal (or a right with similar effect) upon the subsequent resale of such Receivables by such financial institution.

"Receivables" means loans, leases and receivables purchased or originated by the Company or any Restricted Subsidiary in the ordinary course of business; provided, however, that for purposes of determining the amount of a Receivable at any time, such amount shall be determined in accordance with GAAP, consistently applied, as of the most recent practicable date.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with the Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that (i) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced, (ii) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced, (iii) such Refinancing Indebtedness has an aggregate principal amount (or, if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or, if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced, and (iv) in the case of Refinancing Indebtedness that Refinances any Junior Subordinated Obligations, such Refinancing Indebt-

edness constitutes a Junior Subordinated Obligation; provided further, however, that Refinancing Indebtedness shall not include (x) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or another Subsidiary or (y) Indebtedness of the Company or a Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Related Business" means any consumer lending business or any financial service business directly relating to such business.

"Representative" means, with respect to any Senior Indebtedness, any holder thereof or any agent, trustee or other representative for any such holder.

"Restricted Payment" with respect to any Person means: (i) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), and (B) dividends or distributions payable solely to the Company or a Wholly Owned Restricted Subsidiary; (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Wholly Owned Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock); (iii) the payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Junior Subordinated Obligations of the Company or any Restricted Subsidiary; or (iv) the making of any Investment (other than a Permitted Investment) in any Person. Notwithstanding the foregoing, solely for purposes of calculating the aggregate amount of "other Restricted Payments since the Issue Date," as used in clause (iii) of paragraph (a) of the covenant described under "-- Certain Covenants -- Limitation on Restricted Payments," any Investment that constitutes a Permitted Investment under clause (iii) of the definition of "Permitted Investment" shall be considered a Restricted Payment (but such a Permitted Investment shall not be considered a Restricted Payment for any other purpose).

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"SEC" means the Securities and Exchange Commission.

"Senior Indebtedness" means principal of and interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company or a Subsidiary, as applicable, to the extent postpetition interest is allowed in such proceeding) and premium, if any, on (a) any Indebtedness of the Company or any Restricted Subsidiary of the type referred to in clause (i), (ii), (iii), (iv) or (vi) of the definition of "Indebtedness," or (b) all Guarantees by the Company or any Restricted Subsidiary with respect to Indebtedness referred to in the foregoing clause (a), unless, in the case of clause (a) or (b), the instrument under which such Indebtedness is incurred expressly provides that it is pari passu with or subordinated in right of payment to the Notes (in the case of Indebtedness being

Incurred by the Company) or the Subsidiary Guarantee of such Restricted Subsidiary (in the case of Indebtedness being Incurred by any Restricted Subsidiary). Notwithstanding the foregoing, Senior Indebtedness shall not include (a) any liability for federal, state, local, foreign or other taxes, (b) any Indebtedness of the Company or any Restricted Subsidiary to any Affiliates (including obligations under the Tax Sharing Agreement, as amended from time to time), (c) any trade accounts payable and expense accruals, (d) any Indebtedness that is Incurred in violation of the Indenture, and (e) Indebtedness owed for compensation or for services rendered.

"Special Purpose Subsidiary" means a Restricted Subsidiary formed in connection with a securitization of Receivables (i) all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the Company or one or more Restricted Subsidiaries, (ii) that has no assets other than Excess Spread Receivables created in such securitization, (iii) that conducts no business other than holding such Excess Spread Receivables, and (iv) that has no Indebtedness (other than short-term Indebtedness to the Company or any Wholly Owned Restricted Subsidiary attributable to the

purchase by such Restricted Subsidiary from the Company or such Wholly Owned Restricted Subsidiary of such Receivables, which Indebtedness is paid in full upon closing of such securitization).

"Specified Percentage" means (i) at any time prior to the date that is 6 months after the Issue Date, 0%, (ii) subject to clause (i), at any time prior to the date that is 12 months after the Issue Date, 20%, (iii) subject to clauses (i) and (ii), at any time prior to the date that is 18 months after the Issue Date, 40%, (iv) subject to clauses (i), (ii) and (iii), at any time prior to the date that is 24 months after the Issue Date, 90%, and (v) at any other time, 125%.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Wholly Owned Subsidiaries of such Person or (iii) one or more Wholly Owned Subsidiaries of such Person. Unless otherwise specified, "Subsidiary" means a Subsidiary of the Company.

"Tax Sharing Agreement" means the tax allocation and indemnity agreement, dated as of , 1996, by and between Mego Financial and the Company, without regard to any amendments, supplements or other modifications thereof after the Issue Date.

"Temporary Cash Investments" means any of the following: (i) any investment in direct obligations of the United States of America or any agency thereof or obligations guaranteed as to principal and interest by the United States of America or any agency thereof and maturing within 180 days after acquisition thereof; (ii) investments in demand deposit accounts or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is not an Affiliate of the Company and that is organized under the laws of the United States of America or any state thereof, which bank or trust company has capital, surplus and undivided profits aggregating in excess of $500,000,000 and has outstanding debt which is rated "AA" (or similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker-dealer or mutual fund distributor; (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with a bank meeting the qualifications described in clause (ii) above; (iv) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America with a rating of "P-1" or higher

according to Moody's Investors Service, Inc. or "A-1" or higher according to Standard & Poor's Ratings Group; and (v) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by Standard & Poor's Ratings Group or Moody's Investors Service, Inc.

"Unrestricted Subsidiary" means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless (a) such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated or (b) any such Subsidiary has outstanding any Indebtedness other than Non-Recourse Debt; provided, however, that such designation would be a permitted Restricted Investment under

the covenant described under " -- Certain Covenants -- Limitation on Restricted Payments". The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (x) the Company could Incur $1.00 of additional Indebtedness under paragraph (a) of the covenant described under " -- Certain Covenants -- Limitation on Indebtedness" and (y) no Default or Event of Default shall have occurred and be continuing or would result therefrom (giving pro forma effect to the Incurrence of the Indebtedness of such Subsidiary). Any such designation by the Board of Directors shall be evidenced by the Company to the Trustee by promptly filing with the Trustee a copy of the board resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions. If any Subsidiary at any time shall fail to meet the foregoing requirements for designation as an Unrestricted Subsidiary, it shall thereafter be designated as a Restricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary shall be deemed to be Incurred by such Subsidiary as of such date.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Warehouse Facility" means any funding arrangement with a financial institution or other lender or purchaser exclusively to finance the purchase or origination of Receivables by the Company or a Restricted Subsidiary of the Company for the purpose of pooling such Receivables prior to securitization or sale in the ordinary course of business, including any Purchase Facilities.

"Warehouse Indebtedness" means the consideration received by the Company or its Restricted Subsidiaries under a Warehouse Facility with respect to Receivables until such time such Receivables are (i) securitized, (ii) repurchased by the Company or its Restricted Subsidiaries or (iii) sold by the counterpart under the Warehouse Facility to a Person who is not an Affiliate of the Company.

"Wholly Owned Restricted Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the Company or one or more Wholly Owned Restricted Subsidiaries.

"Wholly Owned Subsidiary" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Subsidiary) is owned by the Company or one or more Wholly Owned Subsidiaries.

UNDERWRITING

Subject to the terms and conditions contained in an underwriting agreement with respect to the Offering among the Company and the underwriters named below (the "Underwriters"), for whom Friedman, Billings, Ramsey & Co., Inc. and Oppenheimer & Co., Inc. are acting as representatives (the "Representatives"), each of the Underwriters has severally agreed to purchase from the Company, and the Company has agreed to sell to the Underwriters, the respective aggregate principal amount of the Notes set forth opposite their names below.

<TABLE>
<CAPTION>

NAME	AGGREGATE PRINCIPAL AMOUNT OF NOTES
<S>	<C>
Friedman, Billings, Ramsey & Co., Inc.	$
Oppenheimer & Co., Inc.	
Total.....	$40,000,000

</TABLE>

The Underwriting Agreement provides that the obligations of the several Underwriters thereunder are subject to approval of certain legal matters by counsel and to various other conditions. The Underwriters are committed to purchase all of the Notes if any are purchased.

The Underwriters propose to offer the Notes directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of % of the principal amount. The Underwriters may allow, and such dealers may reallow, a concession not in excess of % of the principal amount on sales to certain other dealers. The offering of the Notes is made for delivery when, as and if accepted by the Underwriters and is subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any offer for the purchase of the Notes. After the initial public offering of the Notes, the public offering price and other selling terms may be changed by the Underwriters.

Prior to the Offering, there has been no public trading market for the Notes and there can be no assurance that any active trading market will develop for the Notes or, if developed, will be maintained.

The Representatives have informed the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the federal securities laws, or to contribute to payments that the Underwriters may be required to make in respect thereof.

Oppenheimer & Co., Inc. has provided from time to time, and expects to provide in the future, investment banking and financial services to the Company and its affiliates, for which Oppenheimer & Co., Inc. has received and will receive customary fees and commissions.

LEGAL MATTERS

The legality of the Notes offered hereby will be passed upon for the Company by Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., Miami, Florida. Gibson, Dunn & Crutcher LLP, New York, New York has acted as counsel for the Underwriters in connection with the Offering.

EXPERTS

The financial statements included in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and elsewhere in the registration statement, and are so included in reliance upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 (together with all amendments, exhibits and schedules thereto, the "Registration Statement") under

the Securities Act, with respect to the Notes offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement. For further information with respect to the Company and the Notes offered hereby, reference is hereby made to such Registration Statement. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete and, in each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement, including all exhibits thereto, may be obtained from the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the fees prescribed by the Commission, or may be examined without charge at the offices of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, as well as the Commission's regional offices at Seven World Trade Center, Suite 1300, New York, New York 10048, and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. In addition, copies of the Registration Statement and related documents may be obtained from the Commission's web site at http://www.sec.gov.

Upon completion of the Offering and the Common Stock Offering, the Company will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith will file annual and quarterly reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information may be inspected, and copies of such material may be obtained upon payment of prescribed fees, at the Commission's Public Reference Section at the addresses set forth above.

The Company intends to furnish its stockholders with annual reports containing audited financial statements of the Company which have been certified by its independent public accountants.

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MEGO MORTGAGE CORPORATION

INDEX TO FINANCIAL STATEMENTS

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<CAPTION>

</TABLE>

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Mego Mortgage Corporation
Las Vegas, Nevada

We have audited the accompanying statements of financial condition of Mego Mortgage Corporation (a wholly owned subsidiary of Mego Financial Corp.) (the "Company") as of August 31, 1995 and 1996, and the related statements of operations, stockholder's equity and of cash flows for each of the three years in the period ended August 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements referred to above present fairly,

in all material respects, the financial position of the Company as of August 31, 1995 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 16 to the financial statements, the accompanying 1994 financial statements have been restated.

As discussed in Note 2 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 122, Accounting for Mortgage Servicing Rights effective September 1, 1994.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada
October 28, 1996

MEGO MORTGAGE CORPORATION

STATEMENTS OF FINANCIAL CONDITION
(IN THOUSANDS OF DOLLARS)

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
ASSETS		
Cash	$ 752	$ 443
Cash deposits, restricted	2,532	4,474
Loans held for sale, net of allowance for credit losses of $74 and $95	3,676	4,610
Mortgage related securities, at fair value	--	22,944
Excess servicing rights	14,483	12,121
Mortgage servicing rights	1,076	3,827
Other receivables	142	59
Property and equipment, net of accumulated depreciation of $108 and $279	429	865
Organizational costs, net of amortization	675	482
Other assets	316	781
TOTAL ASSETS	$24,081	$50,606
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities:		
Notes and contracts payable	$ 1,458	$14,197
Accounts payable and accrued liabilities	2,239	4,066
Allowance for credit losses on loans sold with recourse	886	920
Due to parent company	8,453	11,994
Due to affiliated company	--	819
State income taxes payable	264	909
Total liabilities	13,300	32,905
Stockholder's equity:		
Common Stock -- $.01 par value per share Authorized -- 50,000,000 shares Issued and outstanding -- 10,000,000 shares	100	100
Additional paid in capital	8,550	8,550
Retained earnings	2,131	9,051
Total stockholder's equity	10,781	17,701
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$24,081	$50,606

</TABLE>

See notes to financial statements.

MEGO MORTGAGE CORPORATION

STATEMENTS OF OPERATIONS
(THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
	(AS RESTATED -- NOTE 16)		
<S>	<C>	<C>	<C>
REVENUES			
Gain on sale of loans	$ 579	$12,233	$ 17,994
Net unrealized gain on mortgage related securities	--	--	2,697
Loan servicing income	--	873	3,348
Interest income, net of interest expense of $107, $468, and $1,116	172	473	988
Total revenues	751	13,579	25,027
COSTS AND EXPENSES			
Provision for credit losses	96	864	1,510
Depreciation and amortization	136	403	394
Other interest	22	187	167
General and administrative:			
Payroll and benefits	975	3,611	5,031
Commissions and selling	13	552	2,013
Professional services	--	177	732
Servicing fees paid to affiliate	13	232	709
Management services by affiliate	442	690	671
FHA insurance	11	231	572
Other	554	713	2,073
Total costs and expenses	2,262	7,660	13,872
INCOME (LOSS) BEFORE INCOME TAXES	(1,511)	5,919	11,155
INCOME TAXES	--	2,277	4,235
NET INCOME (LOSS)	$(1,511)	$ 3,642	$ 6,920
PRO-FORMA NET INCOME PER SHARE (Note 2) (Unaudited)			$ 0.60
Weighted average number of common shares outstanding (Note 2)			10,000,000

</TABLE>

See notes to financial statements.

MEGO MORTGAGE CORPORATION

STATEMENTS OF CASH FLOW
(IN THOUSANDS OF DOLLARS)

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
	(AS RESTATED-- NOTE 16)		
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	($1,511)	$ 3,642	$ 6,920
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Additions to mortgage servicing rights	--	(1,176)	(3,306)
Additions to excess servicing rights	(904)	(14,098)	(20,563)
Net unrealized gain on mortgage related securities	--	--	(2,697)
Provisions for estimated credit losses	96	864	1,510
Deferred income taxes	--	230	673
Depreciation and amortization expense	136	403	394

Amortization of excess servicing rights	--	519	2,144
Amortization of mortgage servicing rights	--	100	555
Accretion of residual interest in mortgage related securities	--	--	(243)
Repayments of mortgage related securities	--	--	92
Loans originated for sale, net of loan fees	(8,164)	(87,751)	(139,367)
Repayments on loans held for sale	116	131	504
Proceeds from sale of loans	6,397	84,952	135,483
Changes in operating assets and liabilities:			
Increase in cash deposits, restricted	--	(2,532)	(1,942)
(Increase) decrease in other assets, net	(342)	375	1,248
Increase in state income taxes payable	--	264	670
Increase in other liabilities, net	279	1,959	1,827
Additions to due to affiliated company	1,547	3,581	2,100
Payments on due to affiliated company	(2,052)	(3,305)	(1,281)
Total adjustments	(2,891)	(15,484)	(22,199)
Net cash used in operating activities	(4,402)	(11,842)	(15,279)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(263)	(274)	(637)
Net cash used in investing activities	(263)	(274)	(637)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings on notes and contracts payable	6,275	77,178	146,448
Payments on notes and contracts payable	(5,638)	(76,357)	(133,709)
Additions in due to parent company	--	10,836	8,368
Payments on due to parent company	--	(2,613)	(5,500)
Receipt of common stock subscription	4,500	--	--
Increase in additional paid-in capital	--	3,000	--
Net cash provided by financing activities	5,137	12,044	15,607
NET INCREASE (DECREASE) IN CASH	472	(72)	(309)
CASH -- BEGINNING OF YEAR	352	824	752
CASH -- END OF YEAR	$ 824	$ 752	$ 443
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 38	$ 618	$ 964
Income taxes	$ --	$ 3	$ 25
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:			
In connection with the securitization of loans and creation of mortgage related securities, the Company retained an interest only security and a residual interest security	$ --	$ --	$ 20,096
In connection with the organization of the Company, the Company's parent issued 475,000 shares of its Common Stock to an unrelated entity for services rendered	$ 650	$ --	$ --

</TABLE>

See notes to financial statements.

MEGO MORTGAGE CORPORATION

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED AUGUST 31, 1994 AND 1995 AND 1996
(IN THOUSANDS OF DOLLARS)

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID IN	RETAINED EARNINGS	
	SHARES	AMOUNT	CAPITAL	DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 1, 1993	10,000,000	$100	$4,900	$ --	$ 5,000
Additional paid-in capital	--	--	650	--	650
Net loss for the year ended August 31, 1994 (as restated -- Note 16)	--	--	--	(1,511)	(1,511)

BALANCE AT AUGUST 31, 1994 (AS RESTATED -- NOTE 16)	10,000,000	100	5,550	(1,511)	4,139
Additional paid-in capital	--	--	3,000	--	3,000
Net income for the year ended August 31, 1995	--	--	--	3,642	3,642
BALANCE AT AUGUST 31, 1995	10,000,000	100	8,550	2,131	10,781
Net income for the year ended August 31, 1996	--	--	--	6,920	6,920
BALANCE AT AUGUST 31, 1996	10,000,000	$100	$8,550	$ 9,051	$17,701

</TABLE>

See notes to financial statements.

MEGO MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 1994, 1995 AND 1996

1. NATURE OF OPERATIONS

Mego Mortgage Corporation (the Company) was incorporated on June 12, 1992, in the State of Delaware. The authorized capital stock of the Company is 50,000,000 shares of Common Stock with a par value of $.01 per share. The Company issued a total of 10,000,000 shares of its capital stock to Mego Financial Corp. (Mego Financial), a New York corporation, for $5,000,000 and became a wholly-owned subsidiary of Mego Financial. The Company, through its loan correspondents and home improvement contractors, is primarily engaged in the business of originating, selling, servicing and pooling home improvement loans, which qualify under the provisions of Title I of the National Housing Act which is administered by the U.S. Department of Housing and Urban Development (HUD). Pursuant to that program, 90% of the principal balances of the loans are U.S. government insured (Title I Loans), with cumulative maximum coverage equal to 10% of all Title I Loans originated by the Company. In May 1996, the Company commenced the origination of conventional home improvement and equity loans through its network of loan correspondents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Deposits, Restricted -- Restricted cash represents cash on deposit which is restricted in accordance with the loan sale agreements and untransmitted funds received from collection of loans which have not as yet been disbursed to the purchasers of such loans in accordance with the loan sale agreements.

Loans Held for Sale -- Loans held for sale are carried at the lower of aggregate cost or market value in the accompanying Statements of Financial Condition, net of allowance for credit losses. Loan origination fees and direct origination costs are deferred until the loan is sold.

Mortgage Related Securities -- In 1996, the Company securitized a majority of loans originated into the form of a REMIC. A REMIC is a trust issuing multi-class securities with certain tax advantages to investors and which derives its cash flow from a pool of underlying mortgages. Certain of the senior classes of the REMICs are sold, and an interest only strip and a subordinated residual class are retained by the Company. The subordinated residual class is in the form of residual certificates and are classified as residual interest securities. The documents governing the Company's securitizations require the Company to establish initial overcollateralization or build overcollateralization levels through retention of distributions by the REMIC trust otherwise payable to the Company as the residual interest holder. This overcollateralization causes the aggregate principal amount of the loans in the related pool and/or cash reserves to exceed the aggregate principal balance of the outstanding investor certificates. Such excess amounts serve as credit enhancement for the related REMIC trust. To the extent that borrowers default on the payment of principal or interest on the loans, losses will reduce the overcollateralization and cash flows otherwise payable to the residual interest security holder to the extent that funds are available. If payment defaults exceed the amount of overcollateralization, as applicable, the insurance policy maintained by the related REMIC trust will pay any further losses experienced by holders of the senior interests in the related REMIC trust. The Company does not have any recourse obligations for credit losses in the REMIC trust. The residual interests are amortized to operations over the contractual lives of the loans, considering future estimated prepayments utilizing an amortization method which approximates the level yield method.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) on September 1, 1995. There was no cumulative financial statement impact as a result of adopting SFAS 115.

In accordance with the provisions of SFAS 115, the Company classifies residual interest securities and interest only securities as trading securities which are recorded at fair value with any unrealized gains or losses recorded in the results of operations in the period of the change in fair value. Valuations at origination and at each reporting period are based on discounted cash flow analyses. The cash flows are estimated as the excess

of the weighted average coupon on each pool of loans securitized over the sum of the pass-through interest rate, servicing fees, a trustee fee, an insurance fee and an estimate of annual future credit losses, net of FHA insurance recoveries, related to the loans securitized, over the life of the loans. These cash flows are projected over the life of the loans using prepayment, default, and loss assumptions that the Company believes market participants would use for similar financial instruments and are discounted using an interest rate that the Company believes a purchaser unrelated to the seller of such a financial instrument would require. The Company utilized prepayment assumptions of 14%, estimated loss factor assumptions of 1%, and weighted average discount rates of 12%. The valuation includes consideration of characteristics of the loans including loan type and size, interest rate, origination date, and term. The Company also uses other available information such as externally prepared reports on prepayment rates and industry default rates of the type of loan portfolio under review. To the Company's knowledge, there is no active market for the sale of these mortgage related securities. The range of values attributable to the factors used in determining fair value is broad. Although the Company believes that it has made reasonable estimates of the fair value of the mortgage related securities, the rate of prepayments and default rates utilized are estimates, and actual experience may vary.

Revenue Recognition-Gain on Sale of Loans -- Gain on sale of loans includes the gain on sale of mortgage related securities and the gain on sale of loans held for sale. In accordance with Emerging Issues Task Force (EITF) Issue No. 88-11, the gain on sale of mortgage related securities is determined by an allocation of the cost of the securities based on the relative fair value of the securities sold and the securities retained. The Company retains an interest only strip security and a residual interest security.

The present value of expected net cash flows from the sale of loans are recorded at the time of sale as excess servicing rights. Excess servicing rights are amortized as a charge to income, as payments are received on the retained interest differential over the estimated life of the underlying loans. Excess servicing rights are recorded at the lower of unamortized cost or estimated fair value. The expected cash flows used to determine the excess servicing rights asset have been reduced for potential losses, net of FHA insurance recoveries, under recourse provisions of the sales agreements. The allowance for losses on loans sold with recourse represents the Company's estimate of losses, net of FHA insurance recoveries, to be incurred in connection with the recourse provisions of the sales agreements and is shown separately as a liability in the Company's Statements of Financial Condition.

In discounting cash flows related to loan sales, the Company defers servicing income at annual rates of 1% to 1.25% and discounts cash flows on its sales at the rate it believes a purchaser would require as a rate of return. The cash flows were discounted to present value using discount rates which averaged 12% for the years ended August 31, 1994, 1995, and 1996. The Company has developed its assumptions based on experience with its own portfolio, available market data and ongoing consultation with its investment bankers.

In determining expected cash flows, management considers economic conditions at the date of sale. In subsequent periods, these estimates may be revised as necessary using the original discount rate, and any losses arising from prepayment and loss experience will be recognized as realized.

Mortgage Servicing Rights -- At August 31, 1995, effective September 1, 1994, the Company adopted the provisions of SFAS No. 122 "Accounting for Mortgage Servicing Rights -- an amendment of SFAS No. 65" (SFAS 122) which requires that a mortgage banking enterprise recognize as separate assets the rights to service mortgage loans for others however those servicing rights are

acquired. The effect of adopting SFAS No. 122 on the Company's financial statements was to increase income before income taxes by $1,076,000 for the year ended August 31, 1995. The fair value of capitalized mortgage servicing rights is estimated by calculating the present value of expected net cash flows from mortgage servicing using assumptions the Company believes market participants would use in their estimates of future servicing income and expense, including assumptions about prepayment, default and interest rates. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. The estimate of fair value was based on

a 125 basis points per annum servicing fee reduced by estimated costs of servicing using a discount rate of 12% for the year ended August 31, 1996, and a 100 basis points per annum servicing fee reduced by estimated costs of servicing using a discount rate of 12% for the year ended August 31, 1995. At August 31, 1995 and August 31, 1996, the book value of mortgage servicing rights approximated fair value. The Company periodically reviews mortgage servicing rights to determine impairment. This review is performed on a disaggregated basis, based upon date of origination. Impairment is recognized in a valuation allowance for each pool in the period of impairment. The Company has developed its assumptions based on experience with its own portfolio, available market data and ongoing consultation with its investment bankers.

Allowance for Credit Losses -- Provision for credit losses relating to unsold loans is recorded as expense in amounts sufficient to maintain the allowance at a level considered adequate to provide for anticipated losses resulting from liquidation of outstanding loans. The provision for credit losses is based upon periodic analysis of the portfolio, economic conditions and trends, historical credit loss experience, borrowers' ability to repay, collateral values, and estimated Federal Housing Authority (FHA) insurance recoveries on Title I Loans.

Property and Equipment -- Property and equipment is stated at cost and is depreciated over its estimated useful life (generally five years) using the straight-line method. Costs of maintenance and repairs that do not improve or extend the life of the respective assets are recorded as expense.

Organizational Costs -- Organizational costs associated with the commencement of originating, purchasing, selling and servicing of Title I Loans are being amortized over a five year period which commenced on March 1, 1994. Such amortization is included in depreciation and amortization expense on the Statements of Operations. Accumulated amortization related to organizational costs was $289,000 and $482,000 at August 31, 1995 and 1996, respectively.

Loan Origination Costs and Fees -- Loan origination costs and fees including non-refundable loan origination fees and incremental direct costs associated with loan originations are deferred and amortized over the lives of the loans. Unamortized loan origination costs and fees are recorded as expense or income upon the sale of the related loans.

Allowance for Credit Losses on Loans Sold with Recourse -- Recourse to the Company on sales of loans is governed by the agreements between the purchasers and the Company. The allowance for credit losses on loans sold with recourse represents the Company's estimate of its probable future credit losses to be incurred over the lives of the loans, considering estimated future FHA insurance recoveries on Title I Loans. No allowance for credit losses on loans sold with recourse is established on loans sold through securitizations, as the Company has no recourse obligation under those securitization agreements. Estimated credit losses on loans sold through securitizations are considered in the Company's valuation of its residual interest securities.

Proceeds from the sale of loans with recourse provisions were $6,397,000, $84,952,000, and $118,082,000 for the years ended August 31, 1994, 1995, and 1996, respectively.

Interest Income -- Interest income is recorded as earned. Interest income represents the interest earned on loans held for sale during the period prior to their securitization or other sale, mortgage related securities, and short term investments. In accordance with EITF Issue No. 89-4, the Company computes an effective yield based on the carrying amount of each mortgage related security and its estimated future cash flow. This yield is then used to accrue interest income on the mortgage related security.

During the period that a Title I Loan is 30 days through 270 days

delinquent, the Company accrues interest at the HUD guaranteed rate of 7% in lieu of the contractual rate of the loan. When a Title I Loan becomes over 270 days contractually delinquent, it is placed on non-accrual status and interest is recognized only as cash is received. Interest income on conventional loans greater than 90 days delinquent is generally to be recognized on a cash basis.

Loan Servicing Income -- Fees for servicing loans originated or acquired by the Company and sold with servicing rights retained are generally based on a stipulated percentage of the outstanding principal balance of such loans and are recognized when earned. Interest received on loans sold, less amounts paid to investors, is reported as loan servicing income. Capitalized mortgage servicing rights and excess servicing rights are amortized systematically to reduce loan servicing income to an amount representing normal servicing income and the present value discount. Late charges and other miscellaneous income are recognized when collected. Costs to service loans are recorded to expense as incurred.

Income Taxes -- The Company files a consolidated federal income tax return with its parent, Mego Financial. Income taxes for the Company are provided for on a separate return basis. As part of a tax sharing arrangement, the Company has recorded a liability to Mego Financial for federal income taxes applied to the Company's financial statement income after giving consideration to applicable income tax law and statutory rates. The Company accounts for taxes under SFAS No. 109, "Accounting for Income Taxes" (SFAS 109), which requires an asset and liability approach.

The provision for income taxes includes deferred income taxes, which result from reporting items of income and expense for financial statement purposes in different accounting periods than for income tax purposes. The Company also provides for state income taxes at the rate of 6% of income before income taxes.

Recently Issued Accounting Standards -- The Financial Accounting Standards Board (the FASB) has issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121). SFAS 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS 121 is effective for fiscal years beginning after December 15, 1995. The Company does not anticipate any material effect upon adoption on results of operations or financial condition.

In October 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), which establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the stock.

This statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. SFAS 123 is effective for fiscal years beginning after December 15, 1995. The Company intends to provide the pro forma and other additional disclosure about stock-based employee compensation plans in its 1997 financial statements as required by SFAS 123.

SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125) was issued by FASB in June 1996. SFAS 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It requires that liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets be initially measured at fair value. SFAS 125 also requires that servicing assets be measured by allocating the carrying amount between the assets sold and retained interests based on their relative fair values at the date of transfer. Additionally, this statement requires that the servicing assets and liabilities be subsequently measured by (a) amortization in proportion to and over the period of estimated net servicing income and (b) assessment for asset impairment or increased obligation based on their fair values. The statement will require that the Company's existing and future excess servicing receivables be measured at fair market value and be reclassified as

interest only strip securities and accounted for in accordance with

SFAS 115. As required by the statement, the Company will adopt the new requirements effective January 1, 1997. It is not anticipated that upon implementation, the statement will have any material impact on the financial statements of the Company, as the book value of the Company's excess servicing rights and mortgage related securities approximates fair value.

Stock Split -- The accompanying financial statements retroactively reflect a 1,600 for 1 stock split, an increase in authorized shares of common stock to 50,000,000, and the establishment of a $.01 par value per share effective October 28, 1996.

Pro Forma Net Income Per Share (Unaudited) -- Shares used in computing pro forma net income per share include the weighted average of common stock outstanding during the period, adjusted for the 1,600 for 1 stock split. There were no common stock equivalents. Historical per share data is not included on the Statements of Operations because the data is not considered relevant or indicative of the ongoing operations of the Company. Net income utilized in the calculation of pro forma net income per share has been reduced by an estimated pro forma interest expense in the amount of $1,544,000 and a related tax benefit of $587,000 based upon the application of a 13% interest rate to the Company's average balance of non-interest bearing debt payable to Mego Financial. Pro forma net income per share would change by $0.01 with a 1% change in the interest rate utilized.

Reclassification -- Certain reclassifications have been made to conform prior years with the current year presentation.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments" (SFAS 107), requires disclosure of estimated fair value information for financial instruments, whether or not recognized in the Statement of Financial Condition. Fair values are based upon estimates using present value or other valuation techniques in cases where quoted market prices are not available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Estimated fair values, carrying values and various methods and assumptions used in valuing the Company's financial instruments at August 31, 1996 are set forth below (thousands of dollars):

<TABLE>
<CAPTION>

	CARRYING VALUE	ESTIMATED FAIR VALUE
<S>	<C>	<C>
Financial Assets:		
Cash(a)	$ 443	$ 443
Loans held for sale, net(b)	4,610	5,371
Mortgage related securities(c)	22,944	22,944

Excess servicing rights(c)	12,121	12,121
Mortgage servicing rights(c)	3,827	3,827
Financial Liabilities:		
Notes and contracts payable(d)	14,197	14,197

</TABLE>

(a) Carrying value was used as the estimate of fair value.
(b) Since it is the Company's business to sell loans it originates, the fair value was estimated by using outstanding commitments from investors adjusted for non-qualified loans and the collateral securing such loans.
(c) The fair value was estimated by discounting future cash flows of the instruments using discount rates, default, loss and prepayment assumptions based upon available market data, opinions from investment bankers and portfolio experience.
(d) Notes payable generally are adjustable rate, indexed to the prime rate; therefore, carrying value approximates fair value. Contracts payable represent capitalized equipment leases with a weighted average interest rate of 9.48%, which approximates fair value.

At August 31, 1996, the Company had $59,597,000 in outstanding commitments to originate and purchase loans and no other off-balance sheet financial instruments. A fair value of the commitments was estimated at $6.8 million by calculating a theoretical gain or loss on the sale of a funded loan adjusted for an estimate of loan commitments not expected to fund, considering the difference between investor yield requirements and the committed loan rates. The estimated fair value is not necessarily representative of the actual gain to be recorded on such loan sales in the future.

The fair value estimates made at August 31, 1996 were based upon pertinent market data and relevant information on the financial instruments at that time. These estimates do not reflect any premium or discount that could result from the sale of the entire portion of the financial instruments. Because no market exists for a substantial portion of the financial instruments, fair value estimates may be based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based upon existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, the Company has certain fee-generating business lines (e.g., its loan servicing operations) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

4. CONCENTRATIONS OF RISK

Availability of Funding Source -- The Company funds substantially all of the loans which it originates or purchases with borrowings through its financing facilities and internally generated funds. These borrowings are in turn repaid with the proceeds received by the Company from selling such loans through loan sales or securitizations. Any failure to renew or obtain adequate financing under its financing facilities, or other borrowings, or any substantial reduction in the size of or pricing in the markets for the Company's loans, could have a material adverse effect on the Company's operations. To the extent that the Company is not successful in maintaining or replacing existing financings, it would have to curtail its loan production activities or sell loans earlier than is optimal, thereby having a material adverse effect on the Company's results of operations and financial condition.

Dependence on Securitizations -- In 1996, the Company pooled and sold through securitizations an increasing percentage of the loans that it originated. The Company derives a significant portion of its income by recognizing gains on sale of loans through securitizations which are due in part to the fair value, recorded at the time of sale, of residual interests and interest only securities retained. Adverse changes in the securitization market

could impair the Company's ability to sell loans through securitizations on a favorable or timely basis. Any such impairment could have a material adverse effect upon the Company's results of operations and financial condition.

The Company has relied on credit enhancement and overcollateralization to achieve the "AAA/Aaa" rating for the senior interests in its securitizations. The credit enhancement has generally been in the form of an insurance policy issued by an insurance company insuring the timely repayment of senior interests in each of the REMIC trusts. There can be no assurance that the Company will be able to obtain credit enhancement in any form from the current insurer or any other provider of credit enhancement on acceptable terms or that future securitizations will be similarly rated. A downgrading of the insurer's credit rating or its withdrawal of credit enhancement could have a material adverse effect on the Company's results of operations and financial condition.

Geographic Concentrations -- The Company's servicing portfolio and loans sold with recourse are geographically diversified within the United States. The Company services mortgage loans in 47 states and the District of Columbia. At August 31, 1996, 36% of the dollar value of loans serviced had been originated in California, and 13% in Florida. No other state accounted for more than 10% of the servicing portfolio. The risk inherent in such concentrations is dependent upon regional and general economic stability which affects property values and the financial stability of the borrowers.

Credit Risk -- The Company is exposed to on-balance sheet credit risk related to its loans held for sale and mortgage related securities. The Company is exposed to off-balance sheet credit risk related to loans which the Company has committed to originate and loans sold under recourse provisions. The outstanding balance of loans sold with recourse provisions totaled $88,566,000 and $81,458,000 at August 31, 1995 and 1996, respectively.

Off-Balance Sheet Activities -- These financial instruments consist of commitments to extend credit to borrowers and commitments to purchase loans from others. As of August 31, 1995 and 1996, the Company had outstanding commitments to extend credit or purchase loans in the amounts of $53,447,000 and $59,597,000, respectively. These commitments do not represent the expected total cash outlay of the Company, as historically only 40% of these commitments result in loan originations or purchases. The prospective borrower or seller is under no obligation as a result of the Company's commitment. The Company's credit and interest rate risk is therefore limited to those commitment which result in loan originations and purchases. The commitments are made for a specified fixed rate of interest, therefore the Company is exposed to interest rate risk, to the extent changes in market interest rates change prior to the origination and prior to the sale of the loan.

Interest Rate Risk -- The Company's profitability is in part determined by the difference, or "spread," between the effective rate of interest received on the loans originated or purchased by the Company and the interest rates payable under its financing facilities during the warehousing period and yield required by investors on loan sales and securitizations. The spread can be adversely affected after a loan is originated or purchased and while it is held during the warehousing period by increases in the interest rate demanded by investors in securitizations or sales. In addition, because the loans originated and purchased by the Company have fixed rates, the Company bears the risk of narrowing spreads because of interest rate increases during the period from the date the loans are originated or purchased until the closing of the sale or securitization of such loans. Additionally, the fair value of mortgage related securities, mortgage servicing rights and excess servicing rights owned by the Company may be adversely affected by changes in the interest rate environment which could effect the discount rate and prepayment assumptions used to value the assets. Any such adverse change in assumptions could have a material adverse effect on the Company's results of operations and financial condition.

5. LOANS HELD FOR SALE, ALLOWANCE FOR CREDIT LOSSES, LOAN ORIGINATIONS, AND LOANS SERVICED

Loans held for sale, net of allowance for credit losses, consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Loans held for sale	$3,750	$4,705
Less allowance for credit losses	(74)	(95)
Total	$3,676	$4,610

</TABLE>

The Company provides an allowance for credit losses, in an amount which in the Company's judgment will be adequate to absorb losses after FHA insurance recoveries on the loans, that may become uncollectible. The Company's judgment in determining the adequacy of this allowance is based on its continual review of its portfolio of loans which utilizes historical experience and current economic factors. These reviews take into consideration changes in the nature and level of the portfolio, current and future economic conditions which may affect the obligors' ability to pay, collateral values and overall portfolio quality. Changes in the allowance for credit losses for loans consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Balance at beginning of year	$--	$ 96	$ 960
Provisions for credit losses	96	864	1,510
Reductions due to reacquisition and securitization	--	--	(1,455)
Balance at end of year	$96	$960	$ 1,015
Allowance for credit losses	$30	$ 74	$ 95
Allowance for credit losses on loans sold with recourse	66	886	920
Total	$96	$960	$ 1,015

</TABLE>

During 1996, $113,917,000 of loans sold under recourse provisions were repurchased and securitized as further described in Note 2. Reductions due to reacquisition and securitization represent the allowance for credit losses on loans sold with recourse transferred to the cost basis of the mortgage related securities as a result of these transactions.

Loans serviced and originated consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Amount of Title I Loan originations	$87,751	$127,785
Amount of conventional loan originations	--	11,582
Total	$87,751	$139,367
Loans serviced (including loans securitized, loans sold to investors and loans held for sale)		
Title I Loans	$92,286	$202,766
Conventional loans	--	11,423
Total	$92,286	$214,189

</TABLE>

6. MORTGAGE RELATED SECURITIES

Mortgage related securities consist of interest only strips and residual interest certificates of FHA Title I Loan asset-backed securities collateralized by loans originated, purchased and serviced by the Company.

Mortgage related securities are classified as trading securities and are recorded at estimated fair value. Changes in the estimated fair value are recorded in current operations. As of August 31, 1996 mortgage related securities consisted of the following (thousands of dollars):

	<C>
Interest only securities	$ 4,602
Residual interest securities	18,342
Total	$22,944

No mortgage related securities were owned during 1995.

Activity in mortgage related securities consisted of the following for the year ended August 31, 1996 (thousands of dollars):

	<C>
Balance at beginning of year	$ --
Additions due to securitizations, at cost	20,096
Net unrealized gain	2,697
Accretion of residual interest	243
Principal reductions	(92)
Balance at end of year	$22,944

7. EXCESS SERVICING RIGHTS

Activity in excess servicing rights consisted of the following (thousands of dollars):

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
	<C>	<C>	<C>
Balance at beginning of year	$ --	$ 904	$ 14,483
Plus additions	904	14,098	20,563
Less amortization	--	(519)	(2,144)
Less amounts related to loans repurchased, securitized and transferred to mortgage related securities	--	--	(20,781)
Balance at end of year	$904	$14,483	$ 12,121

As of August 31, 1994, 1995 and 1996, excess servicing rights consisted of excess cash flows on serviced loans totaling $6,555,000, $88,566,000 and $81,458,000, yielding weighted average interest rates of 12.9%, 13.3% and 12.8%, and net of normal servicing and pass-through fees with weighted average pass-through yields to the investor of 8.5%, 8.4% and 8.1%, respectively. These loans were sold under recourse provisions as described in Note 2.

During 1996, $113,917,000 of loans sold were repurchased and securitized as further described in Note 2. Excess servicing rights related to the loans repurchased and securitized of $20,781,000 were transferred to the cost basis of the mortgage related securities as a result of these transactions.

Of the Title I Loans sold in the year ended August 31, 1995, $56,922,000 of such loans were sold to a purchaser, in a series of sales commencing on April 21, 1995, under a continuing sales agreement which provides for the yield to the purchaser to be adjusted monthly to a rate equal to 200 basis points (2%) per annum over the one-month London Interbank Offered Rate (LIBOR). LIBOR was 5.875% per annum at August 31, 1996. The principal balance of loans subject to the LIBOR adjustment was $29,255,000 at August 31, 1996. The effect of an increase or decrease in LIBOR of 100 basis points (1%) applied to those loans would be a decrease or increase, respectively, to the Company's future pre-tax income of approximately $956,000.

8. MORTGAGE SERVICING RIGHTS

Activity in mortgage servicing rights consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Balance at beginning of year	$ --	$ --	$1,076
Plus additions	--	1,176	3,306
Less amortization	--	(100)	(555)
Balance at end of year	$ --	$1,076	$3,827

</TABLE>

As indicated in Note 2, the Company adopted the provisions of SFAS 122 effective September 1, 1994.

The Company had no valuation allowance for mortgage servicing rights during 1994, 1995 and 1996, as the cost basis of mortgage servicing rights approximated fair value.

The pooling and servicing agreements relating to the securitization transactions contain provisions with respect to the maximum permitted loan delinquency rates and loan default rates, which, if exceeded, would allow the termination of the Company's right to service the related loans. At September 30, 1996, the default rates on one pooling and servicing agreement exceeded the permitted level. The mortgage servicing rights for this agreement were approximately $1.4 million at August 31, 1996. In the event of such termination, there would be an adverse effect on the valuation of the Company's mortgage servicing rights.

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Office equipment and furnishings	$ 337	$ 640
EDP equipment	166	470
Vehicles	34	34
	537	1,144
Less accumulated depreciation	(108)	(279)
Total property and equipment, net	$ 429	$ 865

</TABLE>

10. OTHER ASSETS

Other assets consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Deferred borrowing costs	$ 129	$ 216
Software costs, net of amortization (See Note 14)	127	154
Other	60	411
Total	$ 316	$ 781

</TABLE>

11. NOTES AND CONTRACTS PAYABLE

Notes and contracts payable consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Note payable -- warehouse line of credit	$1,039	$ 3,265
Note payable -- revolving line of credit	--	10,000
Other	419	932
Total	$1,458	$14,197

</TABLE>

Notes payable at August 31, 1996 included $3,265,000 of borrowings outstanding under a Warehousing Credit and Security Agreement with a lender that provides available credit facilities up to $20,000,000. The outstanding borrowings bear interest at the bank's prevailing prime rate plus 1% (9.25% at August 31, 1996) and are collateralized by security interests in the Company's loans held for sale. The warehouse line of credit matures on August 9, 1997.

At August 31, 1996, the Company had a $10,000,000 revolving line of credit with the same lender maturing on June 30, 2000, bearing interest at the bank's prevailing prime rate plus 2% (10.25% at August 31, 1996). This facility was secured by a pledge of the Company's excess servicing rights and mortgage related securities. The facility has an 18 month revolving credit period expiring on approximately December 31, 1997, followed by a 30 month payment period. Borrowings under this facility cannot exceed the lesser of (a) 40% of the Company's excess servicing rights and mortgage related securities or (b) 6 times the aggregate of the excess servicing rights and mortgage related securities payments actually received by the Company over the most recent 3 month period. The agreement contains certain restrictions, including but not limited to, restrictions on additional indebtedness and restrictions on capital distributions, through minimum tangible net worth requirements of $12.5 million plus 50% of cumulative net income since May 1, 1996 (50% of cumulative net income for the period May 1, 1996 to August 31, 1996 was $1.1 million).

Both the warehouse line of credit and the revolving line of credit are subject to a requirement of the maintenance of a minimum tangible net worth of $12,500,000 plus 50% of cumulative net income since May 1, 1996 and a minimum level of profitability of at least $500,000 per rolling six month period. Both lines of credit have been guaranteed by Mego Financial.

At August 31, 1995 and 1996, contracts payable consisted of $419,000 and $932,000, respectively, in obligations under lease purchase arrangements secured by property and equipment, bearing a weighted average interest rate of 9.48%.

Scheduled maturities of the Company's contracts payable of $932,000 at August 31, 1996 are as follows (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,				
TOTAL	1997	1998	1999	2000	2001
<S> <C>	<C>	<C>	<C>	<C>	<C>
$ 932	$255	$272	$221	$179	$5

</TABLE>

12. ADDITIONAL PAID-IN CAPITAL

In 1995, Mego Financial contributed $3,000,000 to the Company as additional paid-in capital. During fiscal 1994, Mego Financial contributed $650,000 to the Company as additional paid-in capital through the issuance of 475,000 shares of common stock of Mego Financial. The Mego Financial common stock was issued to an unrelated company for its services in obtaining the necessary HUD approval, state licensing and other matters in connection with the organization of the Company. The value of the Mego Financial stock was based upon the closing bid price of Mego Financial stock as of the date of the agreement with the third party, reduced by (a) an estimate of the costs which would be incurred to register the stock to allow its sale to the public; and (b) an estimate of the discount a seller would incur upon selling a large block of shares. The Company reduced the due to parent company account as a result of this transaction.

13. COMMITMENTS AND CONTINGENCIES

The Company leases an office under the terms of an operating lease that expires March 31, 1999. During fiscal 1994, 1995 and 1996, the Company's rent expense related to this lease was $54,000, $154,000 and $164,000, respectively. In April 1996, the Company executed an operating lease for its main offices in a second location which it will occupy in late 1996. The 1996 lease commences September 1, 1996, expires August 31, 2002, and is guaranteed by Mego Financial. Future minimum rental payments under these operating leases are set forth below (thousands of dollars):

<TABLE>

<S>	<C>
FOR THE YEARS ENDED AUGUST 31,	
1997	$ 943
1998	1,071
1999	1,005
2000	939
2001	957
Thereafter	978
Total	$5,893

</TABLE>

In the general course of business the Company, at various times, has been named in lawsuits. The Company believes that it has meritorious defenses to these lawsuits and that resolution of these matters will not have a material adverse affect on the business or financial condition of the Company.

MEGO MORTGAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

14. RELATED PARTY TRANSACTIONS

During the years ended August 31, 1994, 1995, and 1996, Preferred Equities Corporation (PEC), a wholly-owned subsidiary of Mego Financial, provided certain services to the Company including loan servicing and collection for a cost of $13,000, $232,000, and $709,000, respectively. In addition, the affiliate provided services including executive, accounting, legal, management information, data processing, human resources, advertising and promotional materials (management services) totaling $442,000, $690,000, and $671,000 which amounts were included in general and administrative expenses for the years ended August 31, 1994, 1995, and 1996, respectively. Included in other interest expense for the years ended August 31, 1995 and 1996, are $85,000 and $29,000 related to advances from PEC.

During the years ended August 31, 1994, 1995 and 1996, the Company paid PEC for developing certain computer programming (see Note 10), incurring costs of $130,000, $36,000 and $56,000, respectively. The Company is amortizing these costs over a five year period. During fiscal 1994, 1995 and 1996, amortization

of $13,000, $26,000 and $29,000, respectively, was included in expense. The Company's agreement with PEC regarding loan servicing and collection services charges the Company an annual rate of 0.5% of outstanding loans serviced by PEC calculated and paid on a monthly basis. The costs charged to the Company for management services provided by PEC represent an estimate of the costs incurred by PEC which would have been incurred by the Company had it been operating as a stand alone entity.

Management believes the allocation methodologies for services performed by PEC is reasonable and is representative of an approximation of the expense the Company would incur if it operated as a stand alone entity, unrelated to PEC.

At August 31, 1995 and 1996, the Company had a non-interest bearing liability to Mego Financial of $8,453,000 and $11,994,000, respectively, for federal income taxes and cash advances, which is due on demand and has not as yet been paid. At August 31, 1996, the Company had a non-interest bearing liability to PEC of $819,000 relating to charges for services to the Company.

Activity in due to parent company consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Balance at beginning of year	$ --	$ --	$ 8,453
Provision for federal taxes	--	2,013	3,566
Cash advances from parent	--	9,053	5,475
Repayments of advances	--	(2,613)	(5,500)
Balance at end of year	$ --	$ 8,453	$11,994
Average balance during the year	$ --	$ 2,275	$11,874

</TABLE>

The Company anticipates issuing common stock and subordinated debt to the public to support its cash flow needs in the future. Subsequent to these transactions, it is not anticipated that Mego Financial will continue to provide funds to the Company or guarantee its indebtedness. At August 31, 1996, Mego Financial has no contractual obligation to provide such support other than its guaranty of the warehouse line of credit, revolving credit loan and operating leases described in Notes 11 and 13.

15. INCOME TAXES

As described in Note 2, the Company records a liability to Mego Financial for federal income taxes at the statutory rate (currently 34%). State income taxes are computed at the appropriate state rate (6%) net of any available operating loss carryovers and are recorded as state income taxes payable. For the years ended August 31, 1994, 1995 and 1996, income tax expense has been computed as follows (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Income (loss) before income taxes	$(1,511)	$5,919	$11,155
Federal income taxes at 34% of income	$ --	$2,013	$ 3,793
State income taxes, net of federal income tax benefit	--	264	442
Income tax expense	$ --	$2,277	$ 4,235

</TABLE>

Income tax expense is comprised of the following (thousands of dollars):

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED AUGUST 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Current	$ --	$2,047	$3,562
Deferred	--	230	673
Total	$ --	$2,277	$4,235

</TABLE>

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, (b) temporary differences between the timing of revenue recognition for book purposes and income tax purposes and (c) operating loss and tax credit carryforwards. The tax effects of significant items comprising the Company's net deferred tax liability, included in due to parent company, as of August 31, 1995 and 1996 are as follows (thousands of dollars):

<TABLE>
<CAPTION>

	AUGUST 31,	
	1995	1996
<S>	<C>	<C>
Deferred tax liabilities:		
Difference between book and tax carrying value of assets	$ --	$ 98
Unrealized gain on mortgage related securities	--	1,025
Mortgage servicing rights	591	164
Other	16	2
	607	1,289
Deferred tax assets:		
Allowances for credit losses	366	386
Difference between book and tax carrying value of assets	11	--
	377	386
Net deferred tax liability	$230	$ 903

</TABLE>

16. RESTATEMENT

Subsequent to the issuance of its financial statements for the year ended August 31, 1994, the Company determined that certain adjustments were required to be made to the previously reported amounts as of and for the year ended August 31, 1994.

The Company accounts for its sales of loans under SFAS No. 65, "Accounting for Certain Mortgage Banking Activities" and SFAS No. 91 which require that certain estimates and assumptions (such as the impact of prepayments, cancellations and the discount period and rate) be made in order to compute the present value of the income stream to be received over the estimated lives of the loans sold by the Company. The Company determined that the estimates and assumptions it used previously required revision. The net effect of the restatement for the year ended August 31, 1994 was a decrease in income before income taxes of $421,000. The effect on the Statement of Financial Condition at August 31, 1994, was primarily a reduction of excess servicing rights.

The Company determined that it erroneously included certain expenses in deferred organizational costs related to the fiscal year ended August 31, 1994. Accordingly, costs and expenses were understated by $725,000 and amortization of

the organizations costs was overstated by $3,000. The effect of this restatement on the Statement of Operations was to reduce income before income taxes in 1994 by $722,000. The effect of this restatement on the Statement of Financial Condition of the Company at August 31, 1994, was to reduce other assets by $722,000.

The restatement also included other miscellaneous adjustments. A summary of the effect of the restatement on the Statement of Operations for the year ended August 31, 1994 is as follows (thousands of dollars):

<TABLE>
<CAPTION>

	AS PREVIOUSLY REPORTED	AS RESTATED
<S>	<C>	<C>
Gain on sale of loans	$ 1,206	$ 579
Interest income	298	279
Interest expense	57	107
Provision for credit losses	133	96
Depreciation and amortization	189	136
Commissions and selling	--	13
General and administrative	1,471	1,995
Net loss	(368)	(1,511)

</TABLE>

17. SUBSEQUENT EVENT (UNAUDITED)

In September 1996, the Company received a commitment from a financial institution providing for the purchase of up to $2.0 billion of loans over a five year period. Upon closing of the final agreement, Mego Financial will issue to the financial institution four-year warrants to purchase 1,000,000 shares of Mego Financial's common stock at an exercise price of $7.125 per share. The value of the warrants, estimated at $3.0 million (0.15% of the commitment amount) as of the commitment date, will be recorded as a commitment fee and charged to expense as the commitment is utilized. The financial institution has also agreed to provide the Company a separate one year facility of up to $11.0 million, less any amounts advanced under a separate $3.0 million repurchase agreement, for the financing of the interest only and residual certificates from future securitizations.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES TO WHICH IT RELATES OR AN OFFER TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

</TABLE>

UNTIL , 1996, ALL DEALERS EFFECTING TRANSACTIONS IN THE NOTES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

$40,000,000

MEGO (LOGO)

MEGO MORTGAGE CORPORATION

% SENIOR SUBORDINATED
NOTES DUE 2001

PROSPECTUS

FRIEDMAN, BILLINGS,
RAMSEY & CO., INC.
OPPENHEIMER & CO., INC.

, 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The Registrant estimates that expenses in connection with the offering described in this registration statement will be as follows:

<TABLE>

<S>	<C>
Securities and Exchange Commission registration fee	$ 12,122
NASD filing fee	4,500
Printing expenses	100,000
Accounting fees and expenses	90,000
Legal fees and expenses	125,000
Fees and expenses (including legal fees) for qualifications under state securities laws	5,000
Trustee's fees and expenses	15,000
Miscellaneous	23,378
Total	$375,000

</TABLE>

All amounts except the Securities and Exchange Commission registration fee and the NASD filing fee are estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145(a) of the Delaware General Corporation Law (the "GCL") provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and,

with respect to any criminal action or proceeding, had no cause to believe his or her conduct was unlawful.

Section 145(b) of the GCL provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if he or she acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to be indemnified for such expenses which the court shall deem proper.

Section 145 of GCL further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to in subsection (a) and (b) or in the defense of any claim, issue or matter therein, such officer or director shall be indemnified against expenses actually and reasonably incurred by him or her in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of a director or officer of the

corporation against any liability asserted against such officer or director and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liabilities under Section 145.

As permitted by Section 102(b)(7) of the GCL, the Company's Amended and Restated Certificate of Incorporation provides that a director shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director. However, such provision does not eliminate or limit the liability of a director for acts or omissions not in good faith or for breaching his or her duty of loyalty, engaging in intentional misconduct or knowingly violating a law, paying a dividend or approving a stock repurchase which was illegal, or obtaining an improper personal benefit. A provision of this type has no effect on the availability of equitable remedies, such as injunction or rescission, for breach of fiduciary duty.

The Company's Bylaws require the Company to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, does not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

In addition, the Company's Bylaws require the Company to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall

have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Any indemnification (unless ordered by a court) made by the Company may be only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct as set forth above. Such determination must be made (i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

To the extent that a director, officer, employee or agent of the Company has been successful on the merits or otherwise in defense of any covered action, suit or proceeding, or in defense of any covered claim, issue or matter therein, he will be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Expenses incurred by an officer or director in defending a civil or criminal action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by

the Board in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Company as authorized in the Amended and Restated Certificate of Incorporation. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board deems appropriate.

The Company presently maintains policies of directors' and officers' liability insurance in the amount of $30.0 million.

Pursuant to the Underwriting Agreement to be filed as Exhibit 1.1 to this Registration Statement, the Underwriters have agreed to indemnify the directors, officers and controlling persons of the Registrant against certain civil liabilities that may be incurred in connection with the Offering, including certain liabilities under the Securities Act of 1933, as amended.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

No securities that were not registered under the 1933 Act have been issued or sold by the Registrant within the past three years.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits:

<TABLE>
<CAPTION>

EXHIBIT NUMBER		DESCRIPTION
<C>	<C>	<S>
1.1	--	Underwriting Agreement.
3.1(3)	--	Amended and Restated Certificate of Incorporation of the Registrant.
3.2(3)	--	By-laws of the Registrant, as amended.
4.1	--	Form of Note.
4.2	--	Form of Indenture.
5.1	--	Opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A.
10.1(3)	--	Stock Option Plan
10.2(1)	--	Agreement for Line of Credit and Commercial Promissory Note between the Registrant and First National Bank of Boston, dated January 4, 1994.
10.3(1)	--	Agreement between the Registrant and Hamilton Consulting, Inc., dated January 31, 1994.
10.4(1)	--	Loan Purchase and Sale Agreement dated March 22, 1994, between the Registrant as Buyer, and Southwest Beneficial Finance, Inc. as Seller.
10.5(1)	--	Master Loan Purchase and Servicing Agreement dated as of August 26, 1994, between the Registrant as Seller, and First National Bank of Boston, as Purchaser.
10.6(2)	--	Master Loan Purchase and Servicing Agreement dated April 1, 1995, by and between

		Greenwich Capital Financial Products, Inc. and the Registrant.
10.7(2)	--	Participation and Servicing Agreement dated May 25, 1995, by and between Atlantic Bank, N.A. and the Registrant.
10.8(2)	--	Warehousing Credit and Security Agreement, dated as of August 11, 1995, between the Registrant and First National Bank of Boston.
10.9(3)	--	Form of Tax Allocation and Indemnity Agreement to be entered into between the Registrant and Mego Financial Corp.
10.10(3)	--	Loan Program Sub-Servicing Agreement between the Registrant and Preferred Equities Corporation dated as of September 1, 1996.
10.11(3)	--	Servicing Agreement by and among Mego Mortgage FHA Title I Loan Trust 1996-1, First Trust of New York, National Association, as Trustee, Norwest Bank Minnesota, N.A., as Master Servicer and the Registrant, as Servicer dated as of March 21, 1996.
10.12(3)	--	Loan Purchase Agreement between Financial Asset Securities Corp., as Purchaser, and the Registrant, as Seller, dated as of March 21, 1996.
10.13*	--	Indemnification Agreement among MBIA Insurance Corporation, as Insurer, the Registrant, as Seller and Greenwich Capital Markets, Inc. as Underwriter, dated as of March 29, 1996.

EXHIBIT NUMBER		DESCRIPTION
<C>	<C>	<S>
10.14(3)	--	Pooling and Servicing Agreement, dated as of March 21, 1996, among the Registrant, Financial Asset Securities Corp., as Depositor, First Trust of New York, National Association, as Trustee and Contract of Insurance Holder and Norwest Bank Minnesota, N.A., as Master Servicer.
10.15*	--	Insurance Agreement among MBIA Insurance Corporation, as Insurer, Norwest Bank Minnesota, N.A., as Master Servicer, the Registrant, as Seller, Servicer and Claims Administrator, Financial Asset Securities Corp., as Depositor, Greenwich Capital Financial Products, Inc., and First Trust of New York, National Association, as Trustee and Contract of Insurance Holder, dated as of March 21, 1996.
10.16*	--	Credit Agreement dated as of June 28, 1996 between the Registrant and First National Bank of Boston as Agent.
10.17(3)	--	Loan Purchase Agreement dated as of August 1, 1996 between Financial Asset Securities Corp., as Purchaser, and the Registrant, as Seller.
10.18(3)	--	Pooling and Servicing Agreement dated as of August 1, 1996 between Financial Asset Securities Corp., as Purchaser, and the Registrant, as Seller.
10.19*	--	Amendment No. 1 to Warehousing Credit and Security Agreement dated as of August 9, 1996 between the Registrant and First National Bank of Boston.
10.20(3)	--	Office Lease by and between MassMutual and the Registrant dated April 1996.
10.21*	--	Amendment to Master Loan Purchase and Servicing Agreement between Greenwich Capital Financial Products, Inc. and the Registrant dated February 1, 1996.
10.22*	--	Amendment No. 2 to Master Loan Purchase and Servicing Agreement between Greenwich Capital Financial Products, Inc. and the Registrant dated July 1, 1996.
10.23(3)	--	Services and Consulting Agreement between the Registrant and Preferred Equities Corporation dated as of September 1, 1996.
10.24*	--	Employment Agreement between the Registrant and Jeffrey S. Moore dated January 1, 1994.
10.25(3)	--	Master Repurchase Agreement dated as of September 4, 1996 between the Registrant and Greenwich Capital Markets, Inc.
10.26(3)	--	Letter agreement dated October 1, 1996 between the Registrant and Greenwich Capital Markets, Inc.
10.27(3)	--	Amended and Restated Master Loan Purchase and Servicing Agreement dated as of October 1, 1996 among the Registrant, Mego Financial Corp. and Greenwich Capital Markets, Inc.
10.28(3)	--	Form of Agreement to be entered into between the Registrant and Mego Financial Corp.
10.29(3)	--	Commitment letter between the Registrant and Greenwich Capital Markets, Inc. dated September 17, 1996.
12.1(3)	--	Computation of Ratio of Earnings to Fixed Charges.
21.1(3)	--	Subsidiaries of the Registrant.
23.1	--	Consent of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. (included in its opinion filed as Exhibit 5.1).
23.2	--	Consent of Deloitte & Touche LLP.
23.3(3)	--	Consent of Director Nominees.
24.1*	--	Power of Attorney.
25.1	--	Statement of Eligibility of Trustee.
27.1(3)	--	Financial Data Schedule (for SEC use only)

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* Previously filed

(1) Filed as part of the Form 10-K for the fiscal year ended August 31, 1994 of Mego Financial Corp. and incorporated herein by reference.
(2) Filed as part of the Form 10-K for the fiscal year ended August 31, 1995 of Mego Financial Corp. and incorporated herein by reference.

(3) Filed as part of the Registration Statement on Form S-1 filed by the Company on September 20, 1996, as amended (File No. 333-12443), and incorporated herein by reference.

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on November 13, 1996.

MEGO MORTGAGE CORPORATION

By: /s/ JEROME J. COHEN

Jerome J. Cohen,
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ JEROME J. COHEN JEROME J. Cohen	Chairman of the Board and Chief Executive Officer	November 13, 1996
/s/ JEFFREY S. MOORE* Jeffrey S. Moore	President, Chief Operating Officer and Director	November 13, 1996
/s/ JAMES L. BELTER* James L. Belter	Executive Vice President and Chief Financial Officer	November 13, 1996
/s/ ROBERT NEDERLANDER* Robert Nederlander	Director	November 13, 1996
/s/ HERBERT B. HIRSCH* Herbert B. Hirsch	Director	November 13, 1996
/s/ DON A. MAYERSON Don A. Mayerson	Director	November 13, 1996

*By: /s/ JEROME J. COHEN
Jerome J. Cohen
Attorney-in-fact

1

EXHIBIT 1.1

MEGO MORTGAGE CORPORATION

__% SENIOR SUBORDINATED NOTES DUE 2001

UNDERWRITING AGREEMENT

_____, 1996

2

UNDERWRITING AGREEMENT

_____, 1996

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
OPPENHEIMER & CO., INC.
c/o FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
1001 19th Street North
Arlington, Virginia 22209

Dear Sirs:

Mego Mortgage Corporation (the "Company") confirms its agreement with Friedman, Billings, Ramsey & Co., Inc. and Oppenheimer & Co., Inc., as underwriters (collectively, the "Underwriters"), with respect to the sale by the Company and the purchase by the Underwriters of $40,000,000 aggregate principal amount of the Company's __% Senior Subordinated Notes due 2001 (the "Notes"). The Notes will be issued pursuant to an indenture, dated as of _____, 1996 (the "Indenture") between the Company and _____, as trustee (the "Trustee").

The Company understands that the Underwriters propose to make a public offering of the Notes as soon as the Underwriters deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission"), a registration statement on Form S-1 (No. 333-13421) and a related preliminary prospectus for the registration of the Notes under the Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations thereunder (the "Securities Act Regulations"). The Company has prepared and filed such amendments thereto, if any, and such amended preliminary prospectuses, if any, as may have been required to the date hereof,

and will file such additional amendments thereto and such amended prospectuses as may hereafter be required. The registration statement has been declared effective under the Securities Act by the Commission. The registration statement as amended at the time it became effective (including all information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) of the Securities Act Regulations) is hereinafter called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the Securities Act Regulations is hereinafter called the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the 462(b) Registration Statement. Each prospectus included in the registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Underwriters pursuant to Rule 424(a) of the Securities Act Regulations is hereinafter called the "Preliminary Prospectus." The term "Prospectus" means the final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Securities Act Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

The Company and the Underwriters agree as follows:

1. Sale and Purchase: Upon the basis of the warranties and representations and other terms and conditions herein set forth, the Company agrees to sell to each of the Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase from the Company the respective aggregate principal amount of Notes set forth opposite the name of such Underwriter on Schedule I to this Agreement, in each case at a purchase price of ___% of the principal amount thereof, plus accrued interest, if any, from ___, 1996 to the Closing Time (as defined below). The Underwriters may from time to time increase or decrease the public offering price after the initial public offering to such extent as the Underwriters may determine.

2. Payment and Delivery: Payment of the purchase price for the Notes shall be made to the Company by wire transfer or certified or official bank check payable in federal (same-day) funds at the office of Gibson, Dunn & Crutcher LLP, 200 Park Avenue, New York, New York 10166 (unless another place shall be agreed upon by the Underwriters and the Company) against delivery of the certificates for the Notes to you for your account. Such payment and delivery shall be made at 10:00 a.m., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m. New York City time) business day after the date hereof (unless another time, not later than ten business days after such date, shall be agreed to by the Underwriters and the Company). The time at

which such payment and delivery are actually made is hereinafter sometimes called the "Closing Time." Certificates for the Notes shall be delivered to the Underwriters in definitive form registered in such names and in such denominations as the Underwriters shall specify. For the purpose of expediting the checking of the certificates for the Notes by the Underwriters, the Company agrees to make such certificates available to the Underwriters for such purpose at least one full business day preceding the Closing Time.

3. Representations and Warranties of the Company: The Company represents and warrants to each Underwriter that:

(a) each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with;

(b) the Registration Statement complies and the Prospectus and any further amendments or supplements thereto will, when they become effective or are filed with the Commission, as the case may be, comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act") and the rules and regulations thereunder (the "Trust Indenture Act Regulations"); the Registration Statement did not, and any amendment thereto will not, in each case as of the applicable effective date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Prospectus

and any amendment or supplement thereto will not, as of the applicable filing date and at Closing Time, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning the Underwriters and furnished in writing by or on behalf of the Underwriters to the Company expressly for use in the Registration Statement or the Prospectus;

(c) the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(d) the Company had at the date indicated the duly authorized and outstanding capitalization set forth in the Prospectus under the caption "Capitalization"; all of the issued and outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable; the Company is a corporation duly organized and validly existing under the laws of the State of Delaware, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and to execute and deliver this Agreement and the Indenture and issue the Notes; the Company has no subsidiaries;

(e) except as disclosed in the Registration Statement and the Prospectus with respect to the possible termination of servicing rights, the Company is not in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), its certificate of incorporation or by-laws or in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company is a party or by which it is bound, except for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company, and the execution, delivery and performance of this Agreement and the Indenture and the issuance of the Notes and consummation of the transactions contemplated hereby and thereby will not conflict with, or result in any breach of or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), (i) any provision of the certificate of incorporation or by-laws of the Company, or (ii) any provision of any license, indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company is a party or by which it or its properties may be bound or affected, or under any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company, except in the case of this clause (ii) for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company;

(f) the Indenture has been duly authorized by the Company and when executed and delivered by the Company and the Trustee will be a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by

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bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general principles of equity;

(g) the Notes have been duly authorized by the Company and when executed by the Company, authenticated by the Trustee and delivered against payment therefor as contemplated by this Agreement, will constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits of the Indenture, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity;

(h) this Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general principles of equity, and except to the extent that the indemnification provisions of Section 8 hereof may be limited by federal or state securities laws and public policy considerations in respect thereof;

(i) the Notes and the Indenture conform in all material respects to the description thereof contained in the Registration Statement and Prospectus;

(j) no approval, authorization, consent or order of or filing with any federal, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the execution, delivery and performance of the Indenture and the sale of the Notes as contemplated hereby other than (A) such as have been obtained or made, or will have been obtained or made at the Closing Time, under the Securities Act and the Trust Indenture Act, and (B) any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Notes are being offered by the Underwriters;

(k) Deloitte & Touche LLP, whose reports on the financial statements of the Company are filed with the Commission as part of the Registration Statement and Prospectus, are independent public accountants as required by the Securities Act and the Securities Act Regulations;

(l) the Company has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state or local law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons,

required in order to conduct its business, except to the extent that any failure to have any such licenses, authorizations, consents or approvals, to make any such filings or to obtain any such authorizations, consents or approvals would not, alone or in the aggregate, have a material adverse effect on the business, properties, prospects, results of operations or condition of the Company; the Company is not in violation of, or in default under, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the

Company the effect of which could be material and adverse to the business, properties, prospects, results of operations or condition of the Company;

(m) all legal or governmental proceedings, contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(n) except as disclosed in the Registration Statement and the Prospectus with respect to the Commission's investigation of Mego Financial Corp. (the Company's parent), there are no actions, suits or proceedings pending or, to the Company's knowledge, threatened against the Company or any of its properties, at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which could result in a judgment, decree or order having a material adverse effect on the business, condition, prospects or property of the Company;

(o) the financial statements, including the notes thereto, included in the Registration Statement and the Prospectus present fairly the financial position of the Company as of the dates indicated and the results of operations and changes in financial position and cash flow of the Company for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved (except as indicated in the notes thereto);

(p) subsequent to the effective date of the Registration Statement and the date of the Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any material and unfavorable change, financial or otherwise, in the business, properties, prospects, results of operations or condition (financial or otherwise), present or prospective, of the Company, (B) any transaction, other than in the ordinary course of business, which is material to the Company, contemplated or entered into by the Company or (C) any

obligation, contingent or otherwise, directly or indirectly incurred by the Company, other than in the ordinary course of business, which is material to the Company;

(q) the Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom;

(r) the Company is not, and upon the sale of the Notes as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus under the caption "Use of Proceeds," will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act");

(s) there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act;

(t) any certificate signed by any officer of the Company delivered to the Underwriters or to counsel for the Underwriters pursuant to or in connection with this Agreement shall be deemed a representation and warranty by the Company to the Underwriters as to the matters covered thereby; and

(u) The Company has prepared and filed with the Commission a registration statement on Form S-1 (No. 333-12443) including a prospectus (including any amendments or supplements thereto, the "Common Stock Registration Statement") registering up to 2,300,000 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), in connection with the proposed public offering of the Common Stock.

4. Certain Covenants of the Company: The Company hereby agrees with each Underwriter:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Notes for offering and sale under the securities or blue sky laws of such states as the Underwriters may designate and to maintain such qualifications in effect as long as required for the distribution of the Notes, provided that the Company shall not be required to qualify as a foreign corporation or to consent

to the service of process under the laws of any such state or subject itself to taxation as doing business in any jurisdiction (except service of process with respect to the offering and sale of the Notes);

(b) to prepare the Prospectus in a form approved by the Underwriters and file such Prospectus with the Commission pursuant to Rule 424(b) not later than 10:00 a.m. (New York City time), on the second business day following the execution and delivery of this Agreement and to furnish promptly (and with respect to the initial delivery of such Prospectus, not later than 10:00 a.m. (New York City time) on the day following the execution and delivery of this Agreement) to the Underwriters as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriters may reasonably request for the purposes contemplated by the Securities Act Regulations, which Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(c) to advise the Underwriters promptly and (if requested by the Underwriters) to confirm such advice in writing, when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective under the Securities Act Regulations;

(d) to advise the Underwriters promptly, confirming such advice in writing, of (i) the happening of any event known to the Company within the time during which a Prospectus relating to the Notes is required to be delivered under the Securities Act Regulations which, in the judgment of the Company, would require the making of any

change in the Prospectus then being used so that the Prospectus would not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, (ii) any request by the Commission for amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or (iii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, or of the suspension of the qualification of the Notes for offering or sale in any jurisdiction,

or of the initiation or threatening of any proceedings for any of such purposes and, if the Commission or any other government agency or authority should issue any such order, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to prepare and furnish, at the Company's expense, to the Underwriters promptly any proposed amendments or supplements to the Registration Statement or Prospectus as may be necessary and to file no such amendment or supplement to which the Underwriters shall reasonably object in writing;

(e) to furnish to the Underwriters for a period of five years from the date of this Agreement (i) copies of all annual, quarterly and current reports supplied to holders of the Notes, (ii) copies of all reports filed by the Company with the Commission and (iii) such other information as the Underwriters may reasonably request regarding the Company;

(f) to furnish promptly to the Underwriters three signed copies of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto) and such number of conformed copies of the foregoing as the Underwriters may reasonably request;

(g) to apply the net proceeds from the sale of the Notes in the manner set forth under the caption "Use of Proceeds" in the Prospectus;

(h) to pay all expenses, fees and taxes (other than any transfer taxes and the fees and disbursements of counsel for the Underwriters except as set forth under Section 5 hereof and clauses (iii) and (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance, execution, authentication and delivery of the Notes, (iii) the printing of this Agreement and any dealer agreements, and the reproduction and/or printing and furnishing of copies of each thereof to dealers (including costs of mailing and shipment), (iv) the qualification of the Notes for offering and sale under state laws and the determination of their eligibility for investment under state law as aforesaid (including the reasonable legal fees and filing fees and other disbursements of counsel for the Underwriters) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any filing for review of the public offering of the Notes by the NASD, (vi) the fees and expenses of any transfer agent

or registrar for the Notes, (vii) any fees payable to investment rating agencies with respect to the Notes and (viii) the performance of the Company's other obligations hereunder;

(i) to furnish to the Underwriters, during the period referred to in clause (i) of paragraph (d) above, not less than two business days before filing with the Commission subsequent to the effective date of the Prospectus, a copy of any document proposed to be filed with the Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(j) to make generally available to its Note holders as soon as practicable after the effective date of the Registration Statement an earning statement (in form, at the option of the Company, complying with the provisions of Rule 158 under the Securities Act) covering a period of 12 months beginning after the effective date of the Registration Statement.

5. Reimbursement of the Underwriters' Expenses: If the Notes are not delivered for any reason other than the termination of this Agreement pursuant to the first two paragraphs of Section 7 hereof or the default by the Underwriters in their obligations hereunder, the Company shall reimburse the Underwriters for all of their reasonable out-of-pocket expenses relating to the transactions contemplated hereby, including the reasonable fees and disbursements of their counsel.

6. Conditions of the Underwriters' Obligations: The obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Company on the date hereof and at the Closing Time, the performance by the Company of its obligations hereunder and to the following conditions:

(a) The Company shall furnish to the Underwriters at the Closing Time an opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., counsel for the Company, addressed to the Underwriters and dated the Closing Time and in form satisfactory to Gibson, Dunn & Crutcher LLP, counsel for the Underwriters, stating that:

(i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware with full corporate power and authority to own its properties and to conduct its business and to execute and deliver this Agreement and the Indenture and to issue the Notes;

(ii) the Company is duly qualified or licensed by and is in good standing in each jurisdiction in which the character or location of its assets or properties or the nature of its business makes such qualification necessary and in which the failure, individually or in the aggregate, to be so licensed or qualified

could have a material adverse effect on the operations, business or condition of the Company;

(iii) this Agreement has been duly authorized, executed and delivered by the Company;

(iv) the Indenture has been duly authorized, executed and delivered by the Company, and, assuming due authorization, execution and delivery by the Trustee, is a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity; the Indenture has been duly qualified under the Trust Indenture Act;

(v) the Notes have been duly authorized, executed and delivered by the Company and, assuming due authentication thereof by the Trustee and upon payment therefor and delivery in accordance with this Agreement, will be legal, valid and binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits of the Indenture, except as may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and by general principles of equity;

(vi) the Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus; the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable, and, to the best of such counsel's knowledge, the Company has no subsidiaries;

(vii) the Notes and the Indenture conform in all material respects to the descriptions thereof contained in the Registration Statement and Prospectus;

(viii) the statements under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," "Business - Government Regulation," "Management-Employment Agreement," "Management-Company Stock Option Plan," "Certain Transactions" and "Description of the Notes" in the Registration Statement and the

Prospectus, insofar as such statements constitute a summary of the legal matters or documents referred to therein, constitute accurate summaries thereof in all material respects and accurately present the information called for with respect to such matters or documents;

(ix) as of the effective date of the Registration Statement, the Registration Statement and the Prospectus (except as to the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act Regulations;

(x) the Registration Statement has become effective under the Securities Act and, to the best of such counsel's knowledge, no stop order

suspending the effectiveness of the Registration Statement has been issued and no proceedings with respect thereto have been commenced or threatened;

(xi) no approval, authorization, consent or order of or filing with any federal, or to such counsel's knowledge, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the execution and delivery of the Indenture and the sale and delivery of the Notes by the Company as contemplated hereby other than such as have been obtained or made under the Securities Act and the Trust Indenture Act and except that such counsel need express no opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Notes are being offered by the Underwriters;

(xii) the execution, delivery and performance of this Agreement and the Indenture and the issuance of the Notes by the Company and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) any provisions of the certificate of incorporation or by-laws of the Company, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument

known to such counsel to which the Company is a party or by which it or its properties may be bound or affected, or (iii) the Securities Act or the rules and regulations of the Commission or any other federal law or any decree, judgment or order applicable to the Company, except in the case of clause (ii) for such conflicts, breaches or defaults which have been waived or which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company;

(xiii) to such counsel's knowledge, there are no contracts, licenses, agreements, leases or documents of a character which are required to be filed as exhibits to the Registration Statement or to be summarized or described in the Prospectus which have not been so filed, summarized or described;

(xiv) to such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus with respect to the possible termination of servicing rights, the Company is not in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), any license, indenture, mortgage, deed of trust, bank loan or credit agreement or any other agreement or instrument to which the Company is a party or by which it or its properties may be bound or affected or under any law, regulation or rule or any decree, judgment or order applicable to the Company, except such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company;

(xv) to such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus with respect to the Commission's investigation of Mego Financial Corp., there are no actions, suits or proceedings pending or threatened against the Company or any of its properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described;

(xvi) the form of certificate used to evidence the Notes complies in all material respects with all applicable statutory requirements and with any applicable requirements of the certificate of incorporation and by-laws of the Company;

(xvii) to the best of such counsel's knowledge, there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act; and

(xviii) the Company is not, and will not become upon and as a result of the sale of the Notes and the application of the net proceeds therefrom as described in the Prospectus under the caption "Use of Proceeds," an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the 1940 Act.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus (except as and to the extent stated in subparagraphs (vii) and (viii) above), on the basis of the foregoing nothing has come to the attention of such counsel that causes them to believe that either the Registration Statement or any amendment thereto at the time such Registration Statement or amendment became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that, in each case, such counsel need express no view with respect to the financial statements and other financial and statistical data included in the Registration Statement or Prospectus).

(b) The Underwriters shall have received from Deloitte & Touche LLP, letters dated, respectively, as of the date of this Agreement and the Closing Time, as the case may be, and addressed to the Underwriters in the forms heretofore approved by the Underwriters.

(c) The Underwriters shall have received at the Closing Time the favorable opinion of Gibson, Dunn & Crutcher LLP, counsel for the Underwriters, dated the Closing Time, in form and substance satisfactory to the Underwriters.

(d) No amendment or supplement to the Registration Statement or Prospectus shall have been filed to which the Underwriters shall have objected in writing.

(e) Prior to the Closing Time (i) no stop order suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of any Preliminary Prospectus or Prospectus shall have

been issued by the Commission, and no suspension of the qualification of the Notes for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes, has occurred; and (ii) the Registration Statement and all amendments thereto, or modifications thereof, if any, and the Prospectus and all amendments or supplements thereto, or modifications thereof, if any, shall not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(f) Between the time of execution of this Agreement and the Closing Time (i) no material and unfavorable change, financial or otherwise (other than as disclosed in the Registration Statement and Prospectus), in the business, condition or prospects of the Company shall occur or become known and (ii) no transaction which is material and unfavorable to the Company shall have been entered into by the Company.

(g) The Company will, at the Closing Time, deliver to the Underwriters a certificate of two of its executive officers to the effect that, to each of such officer's knowledge, the representations and warranties of the Company set forth in this Agreement and the conditions set forth in paragraph (e) and paragraph (f) have been met and are true and correct as of such date.

(h) The NASD shall not have raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(i) The Company shall have furnished to the Underwriters such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus or any amendment or supplement thereto as of the Closing Time as the Underwriters may reasonably request.

(j) The Company shall perform such of its obligations under this Agreement as are to be performed by the terms hereof at or before the Closing Time.

(k) The Common Stock Registration Statement registering the Common Stock shall have become effective under the Securities Act, and no stop order suspending the effectiveness of the Common Stock Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or be threatened, pending or contemplated, and the offering of the Common Stock shall have been consummated as contemplated in the Common Stock Registration Statement at the Closing Time.

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7. Termination: The obligations of the Underwriters hereunder shall be subject to termination in the absolute discretion of the Underwriters, at any time prior to the Closing Time, if trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, or if a banking moratorium shall have been declared either by the United States or New York State authorities, or if the United States shall have declared war in accordance with its constitutional processes or there shall have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in the judgment of the Underwriters, to make it impracticable to market the Notes.

If the Underwriters elect to terminate this Agreement as provided in this Section 7 the Company shall be notified promptly by letter or telegram.

If the sale to the Underwriters of the Notes, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement or if such sale is not carried out because the Company shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 4(h), 5 and 8 hereof) and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 8 hereof).

8. Indemnity by the Company and the Underwriters:

(a) The Company agrees to indemnify, defend and hold harmless each Underwriter, and any person who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any Underwriter or controlling person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus (the term Prospectus for the purpose of this Section 8 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, except insofar as any such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by the Underwriters to the Company expressly for use in such Registration Statement or such Prospectus or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information

required to be stated in either such Registration Statement or Prospectus or necessary to make such information not misleading.

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If any action is brought against any Underwriter or controlling person in respect of which indemnity may be sought against the Company pursuant to the preceding paragraph, such Underwriter shall promptly notify the Company in writing of the institution of such action and the Company shall assume the defense of such action, including the employment of counsel and payment of expenses. The Underwriter or controlling person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Underwriter or such controlling person unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate counsel for the Underwriters or controlling persons in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(b) Each Underwriter agrees, severally and not jointly, to indemnify, defend and hold harmless the Company, its directors and officers and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company or any such person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by the Underwriters to the Company expressly for use in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration

Statement or Prospectus or necessary to make such information not misleading.

If any action is brought against the Company or any such person in respect of which indemnity may be sought against the Underwriters pursuant to the foregoing paragraph, the Company or such person shall promptly notify the Underwriters in writing of the institution of such action and the Underwriters shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such person unless the employment of such counsel shall have been authorized in writing by the Underwriters in connection with the defense of such action or the Underwriters shall not

have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Underwriters (in which case the Underwriters shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Underwriters and paid as incurred (it being understood, however, that the Underwriters shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, no Underwriter shall be liable for any settlement of any such claim or action effected without its written consent.

(c) If the indemnification provided for in this Section 8 is unavailable to an indemnified party under subsections (a) and (b) of this Section 8 in respect of any losses, expenses, liabilities or claims referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Notes or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Underwriters on

the other in connection with the statements or omissions which resulted in such losses, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bear to the underwriting discounts and commissions received by the Underwriters. The relative fault of the Company on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(d) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 8, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Notes underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such

Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained in this Section 8 and the covenants, warranties and representations of the Company contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of the Underwriters, or any person who controls the Underwriters within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors and officers or any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and shall survive any termination of this Agreement or the sale and delivery of the Notes. The Company and

the Underwriters agree promptly to notify the others of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company's officers and directors, in connection with the sale and delivery of the Notes, or in connection with the Registration Statement or Prospectus.

9. Substitution of Underwriters. If one or more of the Underwriters shall fail (other than for a reason sufficient to justify the cancellation or termination of this Agreement under Section 7) to purchase at the Closing Time the Notes agreed to be purchased at the Closing Time by such Underwriter or Underwriters, the other Underwriter may find one or more substitute underwriters to purchase such Notes or make such other arrangements as such other Underwriter may deem advisable or such other Underwriter may agree to purchase such Notes, in each case upon the terms set forth in this Agreement. If no such arrangements have been made by the close of business on the business day following the Closing Time,

(a) if the aggregate principal amount of Notes to be purchased by the defaulting Underwriter at the Closing Time shall not exceed 10% of the aggregate principal amount of Notes that all the Underwriters are obligated to purchase at the Closing Time, then the nondefaulting Underwriter shall be obligated to purchase such Notes on the terms herein set forth; provided, that in no event shall the aggregate principal amount of Notes that any Underwriter has agreed to purchase pursuant to Section 1 be increased pursuant to this Section 9 by more than one-ninth of such aggregate principal amount of Notes without the written consent of such Underwriter, or

(b) if the aggregate principal amount of Notes to be purchased by the defaulting Underwriters at the Closing Time shall exceed 10% of the aggregate principal amount of Notes that all the Underwriters are obligated to purchase at the Closing Time, then the Company shall be entitled to an additional business day within which it may, but is not obligated to, find one or more substitute underwriters reasonably satisfactory to the Underwriters to purchase such Notes upon the terms set forth in this Agreement.

In any such case, either the Underwriters or the Company shall have the right to postpone the Closing Time for a period of not more than five business days in order that necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus) may be effected by the Underwriters and the Company. If the aggregate principal amount of Notes to be purchased at the Closing Time by such defaulting Underwriter or Underwriters shall exceed 10% of the aggregate principal amount

of Notes that all the Underwriters are obligated to purchase at the Closing Time, and neither the nondefaulting Underwriter nor the Company shall make arrangements pursuant to this Section within the period stated for the purchase of the Notes that the defaulting Underwriter agreed to purchase, this Agreement shall terminate with respect to the Notes to be purchased at the Closing Time without liability on the part of any nondefaulting Underwriter to the Company and without liability on the part of the Company, except in both cases as provided in Sections 5, 7 and 8. The provisions of this Section shall not in any way affect the liability of any defaulting Underwriter to the Company or the nondefaulting Underwriter arising out of such default. A substitute underwriter hereunder shall become an Underwriter for all purposes of this Agreement.

10. Notices: Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to Friedman, Billings, Ramsey & Co., Inc., 1001 19th Street North, Arlington, Virginia 22209, Attention: Compliance Department; if to the Company, shall be sufficient in all respects if delivered to the Company at the offices of the Company at 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339, Attention: Executive Vice President.

11. GOVERNING LAW; HEADINGS: THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

12. Parties at Interest: The Agreement herein set forth has been and is made solely for the benefit of the Underwriters and the Company and the controlling persons, directors and officers referred to in Section 8 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

13. Counterparts: This Agreement may be signed by the parties in counterparts which together shall constitute one and the same agreement among the parties.

If the foregoing correctly sets forth the understanding among the Company and the Underwriters, please so indicate in the space provided below for the purpose, whereupon this letter shall constitute a binding agreement between the

Company and the Underwriters.

Very truly yours,

MEGO MORTGAGE CORPORATION

By

Title:

Accepted and agreed to as
of the date first above
written:

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
on behalf of itself and Oppenheimer & Co., Inc.
By

Title:

SCHEDULE I

<TABLE>
<CAPTION>

Underwriter	Aggregate Principal Amount of Notes to be Purchased
<S>	<C>
Friedman, Billings, Ramsey & Co., Inc.	
Oppenheimer & Co., Inc.	

Total.....	$40,000,000
	==========

</TABLE>

Exhibit 4.1

Form of Face of Note.

MEGO MORTGAGE CORPORATION

.....% SENIOR SUBORDINATED NOTES DUE 2001

No..... $.....

Mego Mortgage Corporation, a corporation duly organized and existing under the laws of Delaware (herein called the "COMPANY", which term includes any Successor Company under the Indenture hereinafter referred to), for value received, hereby promises to pay to ....., or registered assigns, the principal sum of ..... Dollars on ....., 2001, and to pay interest thereon from ....., 1996 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on ..... and ..... in each year, commencing ....., 1997, at the rate of .....% per annum, until the principal hereof is paid or made available for payment, and at the rate of 1% over the rate set forth above per annum on any overdue principal and (to the extent that the payment of such interest shall be legally enforceable) on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any such interest on this Note will be made at the office or agency of the Company maintained for that purpose in the City of New York, Borough of Manhattan, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

MEGO MORTGAGE CORPORATION

By.....

Attest:

.....

Form of Reverse of Note.

This Note is one of a duly authorized issue of securities of the Company (herein called the "NOTES"), issued under an Indenture, dated as of _____ ___, 1996 (herein called the "INDENTURE"), among the Company, any Person that may from time to time become a party thereto as a Subsidiary Guarantor (as defined therein) by executing and delivering to the Trustee a Joinder of Subsidiary Guarantor (as defined therein), and American Stock Transfer & Trust Company, as Trustee (herein called the "TRUSTEE", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. This Note is one of the Notes designated on the face hereof, limited in aggregate principal amount to $40,000,000.

The Notes are subject to redemption upon not less than 30 days' and not more than 60 days' notice by mail, at any time on or after ....., ..., as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed during the 12-month period beginning ..... of the years indicated,

<TABLE>
<CAPTION>

Year	Redemption Price
<S>	<C>

 ....%
 ..... and thereafter .....%
</TABLE>

, together in the case of any such redemption with accrued interest to the Redemption Date, but interest installments whose stated maturity is on or prior to such Redemption Date will be payable to the Holders of such Notes, or one or more Predecessor Notes, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

The Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time prior to ....., 1998, with the Net Cash Proceeds received by the Company from one or more Public Equity Offerings at a redemption price of .....% of the principal amount of the Notes redeemed, plus accrued and unpaid interest thereon; provided, however, that at least 65% of the original aggregate principal amount of Notes must remain outstanding after each such redemption; and provided, further, that such redemption must occur within 60 days after the closing date of any such Public Equity Offering.

In the event of redemption of this Note in part only, a new Note or Notes of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

Upon a Change of Control, the Holder of this Note will have the right to cause the Company to repurchase all or any part of this Note (which part must be $1,000 or any integral multiple thereof) at a repurchase price equal to 101% of the principal amount of this Note plus accrued and unpaid interest to the date of purchase (subject to the right of the Holders on the relevant Regular Record Date to receive interest due on the relevant Interest Payment Date) as provided in, and subject to the terms of, the Indenture. In addition, this Note is subject to repurchase under certain circumstances upon the occurrence of an Asset Disposition, all as provided in the Indenture.

The Notes are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full in cash or cash equivalents of all Senior Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed. Each Holder by his acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on his behalf, to take

such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee his attorney-in-fact for

such purposes.

The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness evidenced by this Note and (b) certain restrictive covenants, in each case upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

If an Event of Default with respect to Notes shall occur and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Note Register, upon surrender of this Note for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Note Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Notes are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes are exchangeable for a like aggregate principal amount of Notes of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Form of Legend for Global Notes.

Any Global Note authenticated and delivered hereunder shall bear a legend in substantially the following form:

> "This Note is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Note may not be transferred to, or registered or exchanged for Notes registered in the name of, any Person other than the Depositary or a custodian thereof or a successor of such Depositary or a custodian of such successor and no such transfer may be registered, except in the limited circumstances described in the Indenture. Every Note authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, this Note shall be a Global Note subject to the foregoing, except in such limited circumstances."

Form of Trustee's Certificate of Authentication.

The Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Notes designated and referred to in the within-mentioned Indenture.

AMERICAN STOCK TRANSFER & TRUST COMPANY, as Trustee

By

Authorized Officer

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ASSIGNMENT

(TO BE EXECUTED BY THE REGISTERED HOLDER

IF SUCH HOLDER DESIRES TO TRANSFER THIS NOTE)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto _____.

PLEASE INSERT SOCIAL SECURITY OR OTHER
TAX IDENTIFYING NUMBER OF TRANSFEREE

(PLEASE PRINT NAME AND ADDRESS OF TRANSFEREE)

this Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint _____ Attorney to transfer this Note on the Note Register, with full power of substitution.

Dated:

Signature of Holder Signature Guaranteed:

NOTICE: The signature to the foregoing Assignment must correspond to the Name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

OPTION OF HOLDER TO ELECT PURCHASE

(CHECK AS APPROPRIATE)

[ ] In connection with the Change of Control Purchase Offer made pursuant to Section 10.18 of the Indenture, the undersigned hereby elects to have

[ ] the entire principal amount

[ ] $ _____ ($1,000 in principal amount or an integral multiple thereof) principal amount of this Note repurchased by the Company. The undersigned hereby directs the Trustee or Paying Agent to pay it or an amount in cash equal to 101% of the principal amount indicated in the preceding sentence plus accrued and unpaid interest thereon to the date of purchase.

[] In connection with an Asset Disposition Purchase Offer made pursuant to Section 10.13 of the Indenture, the undersigned hereby elects to have

[ ] the entire principal amount

[ ] $_____ ($1,000 in principal amount or an integral multiple thereof) principal amount of this Note repurchased by the Company. The undersigned hereby directs the Trustee or Paying Agent to pay it or _____ an amount in cash equal to 100% of the principal amount indicated in the preceding sentence, plus accrued and unpaid interest thereon, if any, to the date of purchase.

Dated:

Signature of Holder Signature Guaranteed:

NOTICE: The signature to the foregoing must correspond to the Name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

EXHIBIT 4.2

_____

MEGO MORTGAGE CORPORATION

THE PERSONS WHO FROM TIME TO TIME BECOME

SUBSIDIARY GUARANTORS

TO

AMERICAN STOCK TRANSFER & TRUST COMPANY, TRUSTEE

_____

___%
SENIOR SUBORDINATED NOTES
DUE 2001

_____

INDENTURE

DATED AS OF _____ __, 1996

_____

_____

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<CAPTION>

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<CAPTION>

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(a)(2)	6.9
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(a)(4)	Not Applicable
(a)(5)	6.9
(b)	1.5, 6.8, 6.9, 6.10, 6.11
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316 (a)(last sentence)	1.1 (definition of "Outstanding")
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317 (a)(1)	5.3
(a)(2)	5.4
(b)	6.6
318 (a)	1.7
(c)	1.7

NOTE: This Cross-Reference Table shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of _____ __, 1996, among MEGO MORTGAGE CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (herein called the COMPANY), having its principal office at 1000 Parkwood Circle, Suite 500, Atlanta, Georgia 30339, any Person that may from time to time become a party hereto as a Subsidiary Guarantor (as defined below) by executing and delivering to the Trustee aJoinder of Subsidiary Guarantor (as defined below), and AMERICAN STOCK TRANSFER & TRUST COMPANY, a New York corporation, as Trustee (herein called the TRUSTEE).

RECITALS OF THE COMPANY

A. The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance of $40,000,000 in principal amount of its unsecured ___% Senior Subordinated Notes due 2001 (herein called the NOTES), to be issued as in this Indenture provided.

B. Certain future Subsidiaries of the Company are required to become parties hereto as Subsidiary Guarantors by executing and delivering to the Trustee a Joinder of Subsidiary Guarantor (as defined below) and guaranteeing the Notes and certain other obligations of the Company as set forth in Article Eight below and included in the Notes (together with any such Joinder of Subsidiary Guarantor, each a SUBSIDIARY GUARANTEE).

C. All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER
PROVISIONS OF GENERAL APPLICATION

Section 1.1Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

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(3) all accounting determinations hereunder shall be made, and all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;

(4) the words HEREIN, HEREOF and hereunder and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(5) the word INCLUDING is not limiting;

(6) references in this Indenture to any agreement, other document or law AS AMENDED or AS AMENDED FROM TIME TO TIME, or to AMENDMENTS of any document or law, shall include any amendments, supplements, replacements, renewals or other modifications from time to

time, provided in the case of modifications to documents, such modifications are permissible under this Indenture; and

(7) references in this Indenture to any law include regulations promulgated thereunder from time to time.

ACT, when used with respect to any Holder, has the meaning specified in Section 1.4.

ADDITIONAL ASSETS means: (i) any operating property or assets (including Receivables, but excluding Indebtedness and Capital Stock of the acquiring Person) used or useful in a Related Business; (ii) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; provided, however, that any such Restricted Subsidiary described in clause (ii) or (iii) is primarily engaged in a Related Business.

AFFILIATE of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, CONTROL when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided that a Person shall be deemed to have such power with respect to the Company if such Person is the beneficial owner of Capital Stock representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable). The terms CONTROLLING and CONTROLLED have meanings correlative to the foregoing.

AFFILIATE TRANSACTION has the meaning specified in Section 10.14.

APPLICABLE LAW means all applicable provisions of all (i) constitutions, treaties, statutes, laws, rules, regulations and ordinances of any Governmental Authority, (ii) Governmental Approvals and (iii) orders, decisions, judgments, awards and decrees of any Governmental Authority.

"ASSET DISPOSITION" means (i) any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of the definition as a "DISPOSITION"), but excluding any merger, consolidation or sale of assets of the Company subject to and permitted by Section 11.1 of: (a) any shares of Capital Stock of a Subsidiary (other than director's qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Subsidiary); (b) all or substantially all the assets of, or of any division or line of business of the Company or any Restricted Subsidiary; (c) any other assets of the Company or any Restricted Subsidiary with a book or fair market value, together with other assets disposed of in the same or related transactions, exceeding $500,000; or (d) any Excess Spread Receivables (other than, in the case of clauses (a), (b), (c) or (d) above, (1) a disposition of Receivables in the ordinary course of business, (2) a disposition by a Restricted Subsidiary to the Company or by the Company or a Subsidiary to a Wholly Owned Restricted Subsidiary or (3) any grant of a Permitted Lien) or (ii) the issuance of Capital Stock by any Restricted Subsidiary to any Person other than the Company or any Wholly Owned Restricted Subsidiary.

"ASSET DISPOSITION OFFER AMOUNT," "ASSET DISPOSITION PURCHASE OFFER PERIOD," "ASSET DISPOSITION PURCHASE DATE," "ASSET DISPOSITION PURCHASE PRICE" and "ASSET DISPOSITION PURCHASE NOTICE" are defined in Section 10.13.

"AUTHENTICATING AGENT" means any Person authorized by the Trustee pursuant to Section 6.14 to act on behalf of the Trustee to authenticate Notes.

"AUTHORIZED OFFICER" means any officer of an Obligor designated by a resolution of the Board of Directors to take certain actions as specified in this Indenture.

"AVERAGE LIFE" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"BANKRUPTCY CODE" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

"BENEFICIARY" has the meaning specified in Section 8.1.

"BOARD OF DIRECTORS" means either the board of directors of any Obligor or (except for purposes of Section 10.7 or 10.14) any duly authorized committee of that board. Unless otherwise indicated, "BOARD OF DIRECTORS" means the Board of Directors of the Company.

"BOARD RESOLUTION" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the relevant Obligor to have been duly adopted by the Board of Directors, or by action of an Authorized Officer designated as such pursuant to a resolution of the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee. Unless otherwise indicated, "BOARD RESOLUTION" means a Board Resolution of the Company.

"BUSINESS DAY" means each day which is not a Legal Holiday.

"CAPITAL LEASE OBLIGATION" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP. The amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"CAPITAL STOCK" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

A "CHANGE OF CONTROL" will be deemed to have occurred:

(i) upon any merger or consolidation of the Company with or into any person or any sale, transfer or other conveyance, whether direct or indirect, of all or substantially all of the assets of the Company or Parent (in each case on a consolidated basis), in one transaction or a series of related transactions, if, in the case of any such merger or consolidation, the securities of the Company or Parent, as applicable, that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the Voting Stock of the Company or Parent are changed into or exchanged for cash, securities or property, unless pursuant to such transaction such securities are changed into or exchanged for, in addition to any other consideration, securities of the surviving corporation that represent, immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving corporation, provided, however, that the sale by the Company, its Subsidiaries or Parent from time to time of Receivables in the ordinary course of business shall not be treated hereunder as a sale of all or substantially all the assets of the Company or Parent;

(ii) when any "PERSON" or "GROUP" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, whether or not applicable), other than any or all of the Excluded Persons, is or becomes the "BENEFICIAL OWNER" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that such person shall be deemed to have "BENEFICIAL OWNERSHIP" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of (A) more than 40% of the then outstanding shares of Voting Stock of the Company; or (B) more than 40% (or, if the Excluded Persons, in the aggregate, then hold more than 40% of the outstanding shares of Voting Stock of the Parent, more than 45%) of the then outstanding shares of Voting Stock of the Parent; or

(iii) when, during any period of 24 consecutive months after the Issue Date, individuals who at the beginning of any such 24-month period constituted the Board of Directors of the Company or the board of directors of Parent (together with any new directors whose election by such Board or board or whose nomination for election by the stockholders of the Company or Parent, as applicable, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved), cease for any reason to constitute a majority of the Board of Directors of the Company or the board of directors of Parent, as applicable, then in office.

"CHANGE OF CONTROL PURCHASE DATE," "CHANGE OF CONTROL PURCHASE NOTICE," "CHANGE OF CONTROL PURCHASE PRICE" and "CHANGE OF CONTROL PURCHASE OFFER" are defined in Section 10.18.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMPANY" means the Person named as the "COMPANY" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "COMPANY" shall mean such successor Person.

"COMPANY REQUEST" or "COMPANY ORDER" means a written request or order signed in the name of each Obligor by its Chairman of the Board, its Vice Chairman of the Board, its President, its Chief Financial Officer or a Vice President, and by its Controller, an Assistant Controller, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"CONSOLIDATED ADJUSTED NET INCOME" means, for any period, (a) Consolidated Net Income minus (b) gain on sale of loans and net unrealized gain on mortgage related securities, plus (c) provision for credit losses, amortization and depreciation (including amortization of excess servicing rights), in each case for such period and for the Company and its Restricted Subsidiaries.

"CONSOLIDATED LEVERAGE RATIO" as of any date of determination means the ratio of (i) the aggregate amount of all Indebtedness of the Company and its Restricted Subsidiaries, excluding (A) Permitted Warehouse Indebtedness and Guarantees thereof permitted to be Incurred pursuant to clause (b)(1) of Section 10.9, (B) Hedging Obligations permitted to be Incurred pursuant to clause (b)(3) of Section 10.9 and (C) Junior Subordinated Obligations of the Company, to (ii) the Consolidated Net Worth of the Company.

"CONSOLIDATED NET INCOME" means, for any period, the net income of the Company and its consolidated Subsidiaries for such period determined in accordance with GAAP; provided, however, that there shall not be included in such Consolidated Net Income: (i) any net income of

any person if such Person is not a Restricted Subsidiary, except that (A) subject to the exclusion contained in clause (iv) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (iii) below) and (B) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income; (ii) any net income (or loss) of any Person acquired by the Company or a Restricted Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition; (iii) any net income of any Restricted Subsidiary if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that (A) subject to the exclusion contained in clause (iv) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income to the extent that cash could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause) and (B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income; (iv) any gain (but not loss) realized upon the sale or other disposition of any assets of the Company or its consolidated Restricted Subsidiaries (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person; (v) extraordinary gains or losses; and (vi) the cumulative effect of a change in accounting principles, in each case determined in accordance with GAAP.

"CONSOLIDATED NET WORTH" means the consolidated stockholders' equity of the Company and its Subsidiaries, as determined in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company for which financial statements are available, less (i) all write-ups by the Company or any Restricted Subsidiary (other than write-ups resulting from foreign currency translations, write-ups of tangible assets of a going concern business made within 12 months after acquisition thereof and write-ups of Excess

Spread Receivables or mortgage servicing rights in accordance with GAAP), (ii) all Investments in unconsolidated Subsidiaries or Persons that are not Restricted Subsidiaries (except Temporary Cash Investments), (iii) all unamortized debt discount and expense and unamortized deferred charges of the Company and its Restricted Subsidiaries, in each case as of such date, and (iv) any amounts attributable to Disqualified Stock. The "Consolidated Net Worth" of a Restricted Subsidiary means the consolidated net worth of such Subsidiary and its Subsidiaries (if any), determined on an equivalent basis. For purposes of this definition, "deferred charges" does not include deferred taxes, costs associated with mortgage servicing rights and loan origination costs, in each case to the extent deferred in accordance with GAAP.

"CORPORATE TRUST OFFICE" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office as of the date hereof is located at 40 Wall Street, New York, New York 10005.

"COVENANT DEFEASANCE" has the meaning specified in Section 14.3.

"CURRENCY AGREEMENT" means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement to which such Person is a party or a beneficiary.

"DEFAULT" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"DEFAULTED INTEREST" has the meaning specified in Section 3.8.

"DEPOSITARY" has the meaning specified in Section 3.1.

"DESIGNATED SENIOR INDEBTEDNESS" means, as of any date of determination, any Senior Indebtedness if the unpaid principal amount thereof, or the amount of Senior Indebtedness committed to be extended by the lender or lenders under the related credit facility, equals or exceeds $1,000,000 on such date.

"DISQUALIFIED STOCK" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holders thereof, in each case in whole or in part on or prior to the first anniversary of the Stated Maturity of the Notes.

"ELIGIBLE EXCESS SPREAD RECEIVABLES" means Excess Spread Receivables of the Company and its Restricted Subsidiaries, other than (i) any Excess Spread Receivables created as the result of the securitization or sale of other Excess Spread Receivables, and (ii) any Excess Spread Receivables attributable to any whole loan sale of Receivables, unless the Person or Persons holding such Receivables (a) is a GSE or (b) has then

outstanding senior unsecured and unsupported long-term debt rated Baa2 or better by Moody's Investors Service, Inc. and BBB or better by Standard & Poor's Ratings Group.

"EVENT OF DEFAULT" has the meaning specified in Section 5.1.

"EXCESS SPREAD" means (i) with respect to a "POOL" of Receivables that has been sold to a trust or other Person in a securitization, the excess of (a) the weighted average coupon on each pool of Receivables sold over (b) the sum of the pass-through interest rate plus a normal servicing fee, a trustee fee, an insurance fee and an estimate of annual future credit losses related to such assets, in each case calculated in accordance with any applicable GAAP, and (ii) with respect to Receivables that have been sold to a Person in a whole loan sale, the cash flow of the Company and its Restricted Subsidiaries from such Receivables, net of, to the extent applicable, a normal servicing fee, a trustee fee, an insurance fee and an estimate of annual future credit losses related to such assets, in each case calculated in accordance with any applicable GAAP.

"EXCESS SPREAD RECEIVABLES" of a Person means the contractual or certificated right to Excess Spread capitalized on such Person's consolidated balance sheet (the amount of which shall be the present value of the Excess Spread, calculated in accordance with GAAP, net of any allowance for losses on loans sold with recourse or other liability allocable thereto, to the extent not otherwise reflected in such amount). Excess Spread Receivables (a) include mortgage backed securities attributable to Receivables sold by the Company or any Subsidiary, and (b) do not include any mortgage servicing rights.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXCLUDED PERSON" means (i) any Existing Holder, (ii) any corporation or limited liability company controlled by one or more Existing Holders, (iii) any partnership the general partners of which are or are corporations controlled by one or more Existing Holders, and (iv) any trust of which any Existing Holder is the trustee and at least 80% of the beneficial interests in which are owned by such Existing Holder and the spouse or lineal descendants of such Existing Holder. For purposes of this definition, "CONTROL" means the beneficial ownership of at least 80% of the Voting Stock of a Person.

"EXISTING HOLDERS" means Robert Nederlander, Eugene I.

Schuster, Jerome J. Cohen, Herbert B. Hirsch and Don A. Mayerson.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, including those set forth in (i) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (ii) statements and pronouncements of the Financial Accounting Standards Board, (iii) such other statements by such other entity as approved by a significant segment of the accounting profession and (iv) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar

written statements from the accounting staff of the SEC and releases of the Emerging Issues Task Force.

"GLOBAL NOTE" means a Note bearing the legend prescribed in Section 2.4 evidencing all or part of the Notes, authenticated and delivered to the Depositary or its custodian, and registered in the name of such Depositary or custodian.

"GLOBAL NOTE HOLDER" has the meaning specified in Section 3.1.

"GOVERNMENTAL APPROVAL" means an authorization, consent, approval, permit, license, registration or filing with any Governmental Authority.

"GOVERNMENTAL AUTHORITY" with respect to any Person, means any nation (including an Indian nation), any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the United States, any state of the United States or any political subdivision thereof, and any tribunal or arbitrator(s) of competent jurisdiction, in each case, having jurisdiction or authority over such Person.

"GSE" means Federal National Mortgage Association or Federal Home Loan Mortgage Corporation.

"GUARANTEE" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "GUARANTEE" shall not include endorsements for collection or deposit in the ordinary course of business. The term "GUARANTEE" used as a verb has a corresponding meaning.

"GUARANTOR" means any person Guaranteeing any obligation.

"HEDGING OBLIGATIONS" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"HOLDERS" or "NOTEHOLDERS" means the Person in whose name a Note is registered on the Registrar's books.

"INCUR" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or

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otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "INCURRENCE" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall be deemed the Incurrence of Indebtedness.

"INDEBTEDNESS" means, with respect to any Person on any date of determination (without duplication): (i) the principal of and premium, if any, in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all Capital Lease Obligations of such Person; (iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (including any such obligations under repurchase agreements, but excluding trade accounts payable and expense accruals arising in the ordinary course of business not overdue by more than 60 days); (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction; (v) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (but excluding any accrued dividends) or, in the case of a Subsidiary of such Person, any Preferred Stock (but excluding any accrued dividends); (vi) Warehouse Indebtedness; (vii) in connection with each sale of any Excess Spread Receivables, the maximum aggregate claim (if any) that the purchaser thereof could have against such Person if the payments anticipated in connection with such Excess Spread Receivables are not collected; (viii) all obligations of the type referred to in clauses (i) through (vii) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee; (ix) all obligations of the type referred to in clauses (i) through (viii) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and (x) to the extent not otherwise included in this definition, Hedging Obligations of such Person. Notwithstanding the foregoing, "INDEBTEDNESS" shall not include obligations under the Tax Sharing Agreement or any renewal or other modification thereof that complies with Section 10.14. Except in the case of Warehouse Indebtedness (the amount of which shall be determined in accordance with the definition thereof set forth in this Section), the amount of unconditional Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above. The amount of any Indebtedness under clause (viii) of this definition shall be equal to the amount of the outstanding obligation for which such Person is responsible or liable, directly or indirectly, including by way of Guarantee. Notwithstanding the foregoing, any securities issued in a securitization by a special purpose owner trust or similar entity formed by or on behalf of a Person and to which Receivables have been sold or otherwise transferred by or on behalf of such Person or its Restricted Subsidiaries shall not be treated as Indebtedness of such Person or its Restricted Subsidiaries under this Indenture, regardless of whether such securities are treated as indebtedness for tax purposes,

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provided (1) neither the Company nor any of its Restricted Subsidiaries (other than Special Purpose Subsidiaries) (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), except for credit support in the form of "overcollateralization" of the senior certificates issued in, or subordination of or recourse to all or a portion of Excess Spread Receivables attributable to, such securitization, in each case to the extent reflected in the book value of such Excess Spread Receivables, or (b) is directly or indirectly liable (as a guarantor or otherwise), and (2) no default with respect

to such securities (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"INDENTURE" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument, and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively.

"INTEREST-ONLY CERTIFICATE" means a certificate issued in a securitization of a pool of Receivables which pays a fixed or floating interest rate on a notional principal amount.

"INTEREST PAYMENT DATE" means the date on which any installment of interest on the Notes becomes due and payable, as provided in such Notes, the form of which is set forth in Section 2.2.

"INTEREST RATE AGREEMENT" means any interest rate swap agreement, interest rate cap agreement, repurchase agreement, futures contract or other financial agreement or arrangement designed to protect the Company or any Restricted Subsidiary against fluctuations in interest rates.

"INVESTMENT" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business, other than Receivables, that are recorded as trade accounts on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness (including Receivables) or other similar instruments issued by, such Person. For purposes of the definitions of "UNRESTRICTED SUBSIDIARY" and "RESTRICTED PAYMENT" and Section 10.11, (i) "INVESTMENT" shall include the greater of the fair market value and the book value of the Investments by the Company and its Restricted Subsidiaries in such Subsidiary at the time it is so designated and (ii) any property transferred to or from a Person shall be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"ISSUE DATE" means the date on which the Notes are originally issued.

"JOINDER OF SUBSIDIARY GUARANTOR" means a Joinder of Subsidiary Guarantor substantially in the form of Exhibit B.

"JUNIOR SUBORDINATED OBLIGATION" is any future Indebtedness of the Company and the Subsidiary Guarantors that by its terms is expressly subordinated in right of payment to the Notes and the Subsidiary Guarantees to at least the same extent as described in Article Twelve.

"LEGAL DEFEASANCE" has the meaning specified in Section 14.2.

"LEGAL HOLIDAY" means any Saturday, Sunday or other day on which banks in the States of New York or Georgia are authorized or obligated by law to be closed for business.

"LIEN" means (i) any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof) and (ii) any claim (whether direct or indirect through subordination or other structural encumbrance) against any Excess Spread Receivables sold or otherwise transferred by such Person to a buyer, unless such Person is not liable for any losses thereon.

"MANAGEMENT SERVICES AGREEMENT" means the agreement, dated as

of _____, 1996, between the Company and PEC, without regard to any amendments, supplements or other modifications thereof after the Issue Date.

"MATURITY", when used with respect to any Note, means the date on which the principal of such Note or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption, upon repurchase or otherwise.

"MEGO FINANCIAL" means Mego Financial Corp., a New York corporation.

"NET AVAILABLE CASH" from an Asset Disposition means cash payments received therefrom (including any cash payment received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form) in each case net of (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, (ii) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset

Disposition, or by applicable law be, repaid out of the proceeds from such Asset Disposition, and (iii) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"NET CASH PROCEEDS," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"NON-RECOURSE DEBT" means indebtedness (i) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides a Guarantee or other credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable (as the primary obligor or otherwise), or (c) constitutes the lender; and (ii) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries (other than the Notes and the Subsidiary Guarantees) to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"NOTE REGISTER" has the meaning specified in Section 3.6.

"NOTE REGISTRAR" has the meaning specified in Section 3.6.

"OBLIGATIONS" has the meaning specified in Section 8.1.

"OBLIGOR" means the Company or any Guarantor.

"OFFICERS' CERTIFICATE" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President, the Chief Financial Officer or a Vice President, and by the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Secretary or an Assistant Secretary, of any Obligor, and delivered to the Trustee. Unless otherwise indicted, "OFFICERS' CERTIFICATE" means an Officers' Certificate of the Company.

"OPINION OF COUNSEL" means a written opinion of counsel, who may be counsel for the Obligors and who shall be acceptable to the Trustee.

"OUTSTANDING", when used with respect to Notes, means, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

(i) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than any Obligor) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands such Notes are valid obligations of the Company

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company or any other Obligor upon the Notes or any Affiliate of the Company or of such other Obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Trustee knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other Obligor upon the Notes or any Affiliate of the Company or of such other Obligor.

"PARENT" means Mego Financial and its successors, but only while such company beneficially owns 40% or more of the Voting Stock of the Company.

"PAYING AGENT" means any Person authorized by the Company to pay the principal of or any premium or interest on any Notes on behalf of the Company or, if the Company is acting as its own Paying Agent, the Company.

"PAYMENT BLOCKAGE PERIOD" has the meaning specified in Section 12.3.

"PAYMENT BLOCKAGE NOTICE" has the meaning specified in Section 12.3.

"PEC" means Preferred Equities Corporation, a Nevada corporation, and its successors.

"PEC AGREEMENTS" means the Management Services Agreement and the Servicing Agreement.

"PERMITTED INVESTMENT" means an Investment by the Company or any Restricted Subsidiary: (i) in a Wholly Owned Restricted Subsidiary or a Person that, upon the making of such Investment, will become a Wholly Owned Restricted Subsidiary; provided,

however, that the primary business of such Wholly Owned Restricted Subsidiary is a Related Business; (ii) in another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Wholly Owned Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business; (iii) while no Default or Event of Default exists, any Investment in Persons engaged in a Related Business, provided the aggregate amount of all Investments made by the Company and its Restricted Subsidiaries after the Issue Date that constitute Permitted Investments under this clause (iii) (and, without limitation, not including Permitted Investments under clause (i) above), on any date (the "DATE OF DETERMINATION"), may not exceed the sum of (a) $6,000,000, plus (b) the excess, if any, of (A) 25% of Consolidated Net Income during the period (treated as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of the fiscal quarter ended most recently prior to the date of determination for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, zero), over (B) the aggregate amount of Restricted Payments made by the Company and its Restricted Subsidiaries after the Issue Date (other than a Restricted Payment permitted to be made pursuant to clause (i) or (ii) of paragraph (b) of Section 10.11), (iv) in the form of Temporary Cash Investments; (v) in the form of receivables (other than Receivables) owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (vi) in the form of payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; (vii) in the form of loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary in an aggregate amount not to exceed $250,000 outstanding at any time; (viii) in the form of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments; (ix) in any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to Section 10.13, provided the amount thereof does not exceed 10% of Consolidated Net Worth; (x) in the form of Receivables of the Company or any Restricted Subsidiary; and (xi) in the form of Excess Spread Receivables, subordinated certificates or Interest-only Certificates arising from a securitization or sale of Receivables by the Company or any of its Wholly Owned Restricted Subsidiaries (including any securitization of a "pool" of receivables that, in addition to Receivables, also includes loans, leases or other receivables of Persons other than the Company or any Wholly Owned Restricted Subsidiary).

"PERMITTED LIENS" means, with respect to the Company and any Restricted Subsidiary: (i) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal

bonds to which such Person is a party, or deposits as security for contested taxes or for the payment of rent, in each case Incurred in the ordinary course of business; (ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens, in each case for amounts not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review; (iii) Liens for property taxes not yet subject to penalties for nonpayment or which are being contested in good faith and by appropriate proceedings; (iv)

minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property, or leases, subleases or other Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (v) Liens securing Indebtedness of such Person Incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, equipment (including vehicles) of such Person (but excluding Capital Stock of another Person); provided, however, that the Lien may not extend to any other property owned by such Person or any of its Subsidiaries at the time the Lien is Incurred, and the Indebtedness secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien; (vi) Liens on Receivables of the Company or a Restricted Subsidiary, as the case may be, to secure Indebtedness permitted under the provisions described in clause (b)(1) of Section 10.9; (vii) Liens on Excess Spread Receivables (or on the Capital Stock of any Person substantially all the assets of which are Excess Spread Receivables); provided, however, that no such Liens may encumber Eligible Excess Spread Receivables of the Company and its Restricted Subsidiaries in an amount equal to the sum of (1) the Specified Percentage in effect at the creation of such Lien (the "DETERMINATION DATE") of the unpaid principal amount as of the determination date of the Notes and all other unsecured Indebtedness of the Company and its Restricted Subsidiaries that does not constitute Junior Subordinated Obligations (collectively, the "SPECIFIED UNSECURED INDEBTEDNESS"; the amount under this subclause (1) being the "BASE SET ASIDE"), plus (2) 25% of the excess, if any, of (x) the total amount of Eligible Excess Spread Receivables shown on the balance sheet of the Company and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the determination date, over (y) the Base Set Aside, provided that the sum of the Base Set Aside plus the amount in this clause (2) (the "EXCESS SET ASIDE") shall not exceed 200% of Specified Unsecured Indebtedness, plus (3) 10% of the excess, if any, of (x) the amount under the foregoing subclause (2)(x), over (y) the sum of the Base Set Aside plus the Excess Set Aside; (viii) Liens existing on the Issue Date and listed on Schedule 10.12 to this Indenture; (ix) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Restricted Subsidiary of such Person; provided, however, that (A) such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Subsidiary or being designated a Restricted Subsidiary and (B) such

Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries; (x) Liens on property at the time such Person or any of its Restricted Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Restricted Subsidiary of such Person; provided, however, that (A) such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and (B) such Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries; (xi) Liens securing Indebtedness or other obligations of a Restricted Subsidiary of such Person owing to such Person or a Wholly Owned Restricted Subsidiary of such Person; (xii) Liens (other than on any Excess Spread Receivables) securing Hedging Obligations of the Company or such Restricted Subsidiary so long as such Hedging Obligations relate to Indebtedness that is, and is permitted under this Indenture to be, secured by a Lien on the same property securing such Hedging Obligations; (xiii) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness of the Company or such Restricted Subsidiary secured by any Lien referred to in the foregoing clauses (v), (viii) and (ix); provided, however, that (A) such new Lien shall be limited to all or part of the same property that secured the original Lien (plus improvements to or on such property), (B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (1) the outstanding

principal amount or, if greater, committed amount of the Indebtedness described in clause (v), (viii) or (ix), as the case may be, at the time the original Lien became a Permitted Lien and (2) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement and (C) the Average Life of such Indebtedness is not decreased; and (xiv) any Lien in the form of "over-collateralization" of the senior certificates issued in, or subordination of or recourse to all or a portion of Excess Spread Receivables of the Company or any Subsidiary attributable to, a securitization of Receivables, in each case to the extent reflected in the book value of such Excess Spread Receivables, which Lien is in favor of the holders of other interests in the trust relating to such securitization, provided, however, that notwithstanding any of the foregoing clauses, no Lien on Eligible Excess Spread Receivables, other than a Lien permissible under the foregoing clauses (vii) and (xiv), shall be a Permitted Lien. Notwithstanding the foregoing, "Permitted Liens" will not include any Lien described in clause (v), (ix) or (x) above to the extent such Lien applies to any Additional Assets acquired directly or indirectly from Net Available Cash pursuant to Section 10.13. Without limitation, for purposes of clause (vii) of this definition, the Incurrence of any Indebtedness (or an increase in the amount of any Indebtedness) secured by a Lien on Excess Spread Receivables shall be considered the incurrence of a new Lien on such Excess Spread Receivables, irrespective of whether a Lien securing other Indebtedness (or a lesser amount of Indebtedness) already exists on such assets at the time of such Incurrence.

"PERMITTED WAREHOUSE INDEBTEDNESS" means Warehouse Indebtedness in connection with a Warehouse Facility; provided, however, that (i) the assets being financed are eligible to be recorded as held for sale on the consolidated balance sheet of the Company and its Restricted Subsidiaries in accordance with GAAP, (ii) Warehouse Indebtedness constitutes Permitted Warehouse Indebtedness only (a) if, in the case of

Warehouse Indebtedness under a Purchase Facility, recourse with respect to the obligations of the Company and its Restricted Subsidiaries under such Warehouse Facility is limited to the Receivables financed thereby or (b) in the case of any other Warehouse Indebtedness, to the extent of the lesser of (A) the amount advanced by the lender with respect to the Receivables financed under the Warehouse Facility, and (B) the principal amount of such Receivables, and (iii) any such Indebtedness has not been outstanding in excess of 360 days.

"PERMITTED WAREHOUSE INDEBTEDNESS LIMITATION" means, with respect to any Warehouse Indebtedness of any Restricted Subsidiary, any covenant in the credit documents under which such Warehouse Indebtedness is incurred to maintain the consolidated net worth of such Restricted Subsidiary at a specified dollar amount, provided that such covenant does not require such consolidated net worth to be maintained at a level in excess of 85% of the consolidated net worth of such Restricted Subsidiary shown on the most recently available consolidated balance sheet of such Restricted Subsidiary at the time such credit documents are entered into, amended or renewed. For purposes of this definition, "CONSOLIDATED NET WORTH" shall be determined in accordance with GAAP.

"PERSON" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"PLACE OF PAYMENT" means the place or places where the principal of and any premium and interest on the Notes are payable as specified in Section 10.2.

"PREDECESSOR NOTE" of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 3.7 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Note shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Note.

"PREFERRED STOCK" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such corporation.

"PRINCIPAL" of a Note means the principal of the Note payable on the Note which is due or overdue or is to become due at the relevant time.

"PUBLIC EQUITY OFFERING" means an underwritten primary public offering of Common Stock of the Company pursuant to an effective registration statement under the Securities Act.

"PURCHASE DATE" means any Asset Disposition Purchase Date or any Change of Control Purchase Date.

"PURCHASE FACILITY" means any Warehouse Facility pursuant to which the Company or a Restricted Subsidiary sells Receivables to a financial institution or other Person and retains a right of first refusal (or a right with similar effect) upon the subsequent resale of such Receivables by such financial institution.

"PURCHASE NOTICE" means any Asset Disposition Purchase Notice or any Change of Control Purchase Notice.

"PURCHASE PRICE" means any Asset Disposition Purchase Price or Change of Control Purchase Price.

"QUALIFIED STOCK" of any Person means any and all Capital Stock of such Person other than Disqualified Stock.

"RECEIVABLES" means loans, leases and receivables purchased or originated by the Company or any Restricted Subsidiary in the ordinary course of business; provided, however, that for purposes of determining the amount of a Receivable at any time, such amount shall be determined in accordance with GAAP, consistently applied, as of the most recent practicable date.

"REDEMPTION DATE", when used with respect to any Note to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"REDEMPTION PRICE", when used with respect to any Note to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"REFINANCE" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "REFINANCED" and "REFINANCING" shall have correlative meanings.

"REFINANCING INDEBTEDNESS" means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with this Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that (i) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced, (ii) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced, (iii) such Refinancing Indebtedness has an aggregate principal amount (or, if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or, if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being

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Refinanced, and (iv) in the case of Refinancing Indebtedness that Refinances any Junior Subordinated Obligations, such Refinancing Indebtedness constitutes a Junior Subordinated Obligation; provided further, however, that Refinancing Indebtedness shall not include (x) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or another Subsidiary or (y) Indebtedness of the Company or a Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"REGULAR RECORD DATE" for the interest payable on any Interest Payment Date on the Notes means the _____ or _____ (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"RELATED BUSINESS" means any consumer lending business or any financial service business directly relating to such business.

"REPRESENTATIVE" means, with respect to any Senior Indebtedness, any holder thereof or any agent, trustee or other representative for any such holder.

"RESPONSIBLE OFFICER", when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any senior trust officer, trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"RESTRICTED PAYMENT" with respect to any Person means: (i) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), and (B) dividends or distributions payable solely to the Company or a Wholly Owned Restricted Subsidiary; (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Wholly Owned Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock); (iii) the payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Junior Subordinated Obligations of the Company or any Restricted Subsidiary; or (iv) the making of any Investment (other than a Permitted Investment) in any Person. Notwithstanding the foregoing, solely for purposes of calculating the aggregate amount of "other Restricted Payments since the Issue Date," as used in clause (iii) of paragraph (a) of Section 10.11, any Investment that constitutes a

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Permitted Investment under clause (iii) of the definition of "PERMITTED INVESTMENT" shall be considered a Restricted Payment (but such a Permitted Investment shall not be considered a Restricted Payment for any other purpose).

"RESTRICTED SUBSIDIARY" means any Subsidiary of the Company

that is not an Unrestricted Subsidiary.

"SEC" means the Securities and Exchange Commission.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"SENIOR INDEBTEDNESS" means principal of and interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company or a Subsidiary, as applicable, to the extent postpetition interest is allowed in such proceeding) and premium, if any, on (a) any Indebtedness of the Company or any Restricted Subsidiary of the type referred to in clause (i), (ii), (iii), (iv) or (vi) of the definition of "Indebtedness," or (b) all Guarantees by the Company or any Restricted Subsidiary with respect to Indebtedness referred to in the foregoing clause (a), unless, in the case of clause (a) or (b), the instrument under which such Indebtedness is incurred expressly provides that it is pari passu with or subordinated in right of payment to the Notes (in the case of Indebtedness being Incurred by the Company) or the Subsidiary Guarantee of such Restricted Subsidiary (in the case of Indebtedness being Incurred by any Restricted Subsidiary). Notwithstanding the foregoing, Senior Indebtedness shall not include (a) any liability for federal, state, local, foreign or other taxes, (b) any Indebtedness of the Company or any Restricted Subsidiary to any Affiliates (including obligations under the Tax Sharing Agreement, as amended from time to time), (c) any trade accounts payable and expense accruals, (d) any Indebtedness that is Incurred in violation of this Indenture, and (e) Indebtedness owed for compensation or for services rendered.

"SENIOR OFFICER" means the Chairman of the Board, a Vice Chairman of the Board, the President, the Chief Financial Officer, a Vice President, the Treasurer, the Controller, or the Secretary of the Company,

"SERVICING AGREEMENT" means the agreement, dated as of _____, 1996, between the Company and PEC, without regard to any amendments, supplements or other modifications thereof after the Issue Date.

"SPECIAL PURPOSE SUBSIDIARY" means a Restricted Subsidiary formed in connection with a securitization of Receivables (i) all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the Company or one or more Restricted Subsidiaries, (ii) that has no assets other than Excess Spread Receivables created in such securitization, (iii) that conducts no business other than holding such Excess Spread Receivables, and (iv) that has no Indebtedness (other than short-term Indebtedness to the Company or any Wholly Owned Restricted Subsidiary attributable to the purchase by such Restricted

Subsidiary from the Company or such Wholly Owned Restricted Subsidiary of such Receivables, which Indebtedness is paid in full upon closing of such securitization).

"SPECIAL RECORD DATE" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 3.8.

"SPECIFIED PERCENTAGE" means (i) at any time prior to the date that is six months after the Issue Date, 0%, (ii) subject to clause (i), at any time prior to the date that is 12 months after the Issue Date, 20%, (iii) subject to clauses (i) and (ii), at any time prior to the date that is 18 months after the Issue Date, 40%, (iv) subject to clauses (i), (ii) and (iii), at any time prior to the date that is 24 months after the Issue Date, 90%, and (v) at any other time, 125%.

"STATED MATURITY" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any

provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"SUBSIDIARY" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Wholly Owned Subsidiaries of such Person or (iii) one or more Wholly Owned Subsidiaries of such Person. Unless otherwise specified, "SUBSIDIARY" means a Subsidiary of the Company.

"SUBSIDIARY GUARANTEE" has the meaning specified in the recitals.

"SUBSIDIARY GUARANTOR" means all future Subsidiaries of the Company other than Special Purpose Subsidiaries, unless any such Subsidiary is designated an "Unrestricted Subsidiary" in accordance with Section 10.20, each of which shall have executed and delivered to the Trustee aJoinder of Subsidiary Guarantor.

"SUBSIDIARY GUARANTOR PAYMENT BLOCKAGE NOTICE" has the meaning specified in Section 12.3.

"SUBSIDIARY GUARANTOR PAYMENT BLOCKAGE PERIOD" has the meaning specified in Section 12.3.

"SUCCESSOR COMPANY" has the meaning specified in Section 11.1.

"TAX SHARING AGREEMENT" means the agreement, dated as of _____, 1996, by and among Mego Financial, the Company, PEC and the subsidiaries of PEC, without regard to any amendments, supplements or other modifications thereof after the Issue Date.

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"TEMPORARY CASH INVESTMENTS" means any of the following: (i) any investment in direct obligations of the United States of America or any agency thereof or obligations guaranteed as to principal and interest by the United States of America or any agency thereof and maturing within 180 days after acquisition thereof; (ii) investments in demand deposit accounts or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is not an Affiliate of the Company and that is organized under the laws of the United States of America or any state thereof, which bank or trust company has capital, surplus and undivided profits aggregating in excess of $500,000,000 and has outstanding debt which is rated "AA" (or similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money-market fund sponsored by a registered broker-dealer or mutual fund distributor; (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with a bank meeting the qualifications described in clause (ii) above; (iv) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America with a rating of "P-1" or higher according to Moody's Investors Service, Inc. or "A-1" or higher according to Standard & Poor's Ratings Group; and (v) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by Standard & Poor's Ratings Group or Moody's Investors Service, Inc.

"TRUSTEE" means the Person named as the "TRUSTEE" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "TRUSTEE" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "TRUSTEE" as used with respect to the Notes shall mean the

Trustee with respect to the Notes.

"TRUST INDENTURE ACT" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "TRUST INDENTURE ACT" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"UNRESTRICTED SUBSIDIARY" means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in Section 10.20 and (ii) any Subsidiary of an Unrestricted Subsidiary.

"U.S. GOVERNMENT OBLIGATIONS" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith

and credit of the United States of America is pledged and which are not callable at the issuer's option.

"VICE PRESIDENT", when used with respect to any Obligor or the Trustee, means any vice president (but shall not include any assistant vice president), whether or not designated by a number or a word or words added before or after the title "vice president".

"VOTING STOCK" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"WAREHOUSE FACILITY" means any funding arrangement with a financial institution or other lender or purchaser exclusively to finance the purchase or origination of Receivables by the Company or a Restricted Subsidiary of the Company for the purpose of pooling such Receivables prior to securitization or sale in the ordinary course of business, including any Purchase Facilities.

"WAREHOUSE INDEBTEDNESS" means the consideration received by the Company or its Restricted Subsidiaries under a Warehouse Facility with respect to Receivables until such time such Receivables are (i) securitized, (ii) repurchased by the Company or its Restricted Subsidiaries or (iii) sold by the counterpart under the Warehouse Facility to a Person who is not an Affiliate of the Company.

"WHOLLY OWNED RESTRICTED SUBSIDIARY" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the Company or one or more Wholly Owned Restricted Subsidiaries.

"WHOLLY OWNED SUBSIDIARY" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Subsidiary) is owned by the Company or one or more Wholly Owned Subsidiaries.

Section 1.2 Compliance Certificates and Opinions.

Upon any application or request by any Obligor to the Trustee to take any action under any provision of this Indenture, the Obligor shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Obligor, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion (other than the Officers' Certificate delivered under Section 10.4 hereof) with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 1.3 Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of any Obligor may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Obligor stating that the information with respect to such factual matters is in the possession of the Obligor, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.4 Acts of Holders, Record Dates.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided,

such action shall become effective upon action by the requisite percentage of Holders when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "ACT" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.1) conclusive in favor of the Trustee and the Obligor, if made in the manner provided in this Section.

Without limiting the generality of the foregoing, a Holder, including a Depositary that is a Holder of a Global Note, may make, give or take, by a proxy, or proxies, duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided or

permitted in this Indenture to be made, given or taken by Holders, and a Depositary that is a Holder of a Global Note may provide its proxy or proxies to the beneficial owners of interest in any such Global Note.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders of Notes entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders of Notes. If not set by the Company prior to the first solicitation of a Holder of Notes made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 7.1) prior to such first solicitation or vote, as the case may be. With regard to any record date for action to be taken by the Holders Notes, only the Holders of Notes on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.

(d) The ownership of Notes shall be proved by the Note Register.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

(f) Without limiting the foregoing, a Holder entitled hereunder to give or take any action hereunder with regard to any particular Note may do so with regard to all or any part

of the principal amount of such Note or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any different part of such principal amount.

Section 1.5 Notices, Etc., to Trustee and Company.

Except as otherwise expressly provided herein, any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by any Obligor shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, or

(2) any Obligor by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Obligor addressed to it at the address of the Company's principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by such Obligor, Attention: [_____].

Section 1.6 Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein

expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Note Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 1.7 Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 1.8 Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.9 Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 1.10 Separability Clause.

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.11 Benefits of Indenture.

Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than (a) the parties hereto and their successors hereunder and (b) the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.12 Governing Law; Choice of Forum.

(A) THIS INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

(b) EACH OBLIGOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE AND THE NOTES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. EACH OBLIGOR IRREVOCABLY WAIVES, TO THE FULLEST EXTENT THEY MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR

PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) Each Obligor hereby irrevocably appoints CT Corporation Systems (the "PROCESS AGENT," which has consented thereto) with offices on the date hereof at 1633 Broadway, New York, New York 10019, as Process Agent to receive for and on behalf of

such Obligor service of process in the County of New York relating to this Indenture and the Notes. SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING AGAINST ANY OBLIGOR MAY BE MADE ON THE PROCESS AGENT BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY ANY OTHER METHOD OF SERVICE PROVIDED FOR UNDER APPLICABLE LAWS IN EFFECT IN THE STATE OF NEW YORK, AND THE PROCESS AGENT IS HEREBY AUTHORIZED AND DIRECTED TO ACCEPT SUCH SERVICE FOR AND ON BEHALF OF SUCH OBLIGOR AND TO ADMIT SERVICE WITH RESPECT THERETO. SUCH SERVICE UPON THE PROCESS AGENT SHALL BE DEEMED EFFECTIVE PERSONAL SERVICE ON SUCH OBLIGOR, SUFFICIENT FOR PERSONAL JURISDICTION, 10 DAYS AFTER MAILING, AND SHALL BE LEGAL AND BINDING UPON SUCH OBLIGOR FOR ALL PURPOSES, NOTWITHSTANDING ANY FAILURE OF THE PROCESS AGENT TO MAIL COPIES OF SUCH LEGAL PROCESS TO SUCH OBLIGOR OR ANY FAILURE ON THE PART OF SUCH OBLIGOR TO RECEIVE THE SAME. Each Obligor confirms that it has instructed the Process Agent to mail to such Obligor, upon service of process being made on the Process Agent pursuant to this Section, a copy of the summons and complaint or other legal process served upon it, by registered mail, return receipt requested, at such Obligor's address set forth in Schedule 105, or to such other address as such Obligor may notify the Process Agent in writing. Each Obligor agrees that it will at all times maintain a process agent to receive service of process in the County of New York on its behalf with respect to this Indenture and the Notes. If for any reason the Process Agent or any successor thereto shall no longer serve as such process agent or shall have changed its address without notification thereof to the Trustee, such Obligor, immediately after gaining knowledge thereof, irrevocably shall appoint a substitute process agent acceptable to the Trustee in the County of New York and advise the Trustee thereof.

(d) NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE TRUSTEE OR ANY HOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANY OBLIGOR IN ANY OTHER JURISDICTION.

Section 1.13 Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Note shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Notes (other than a provision of the Notes which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

ARTICLE TWO

NOTE FORMS

Section 2.1 Forms Generally.

The Notes shall be in substantially the form set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any

securities exchange or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their execution of the Notes.

Each Note issued after the execution and delivery by any Subsidiary of aJoinder of Subsidiary Guarantor shall include provisions relating to the Subsidiary Guarantee, which shall be substantially in the form of Exhibit A.

The definitive Notes shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers of the Obligor executing such Notes, as evidenced by their execution of such Notes.

Section 2.2 Form of Face of Note.

MEGO MORTGAGE CORPORATION

.....% SENIOR SUBORDINATED NOTES DUE 2001

No..... $.....

Mego Mortgage Corporation, a corporation duly organized and existing under the laws of Delaware (herein called the "COMPANY", which term includes any Successor Company under the Indenture hereinafter referred to), for value received, hereby promises to pay to ....., or registered assigns, the principal sum of ..... Dollars on ....., 2001, and to pay interest thereon from ....., 1996 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on ..... and ..... in each year, commencing ....., 1997, at the rate of .....% per annum, until the principal hereof is paid or made available for payment, and at the rate of 1% over the rate set forth above per annum on any overdue principal and (to the extent that the payment of such interest shall be legally enforceable) on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered

at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any such interest on this Note will be made at the office or agency of the Company maintained for that purpose in the City of New York, Borough of Manhattan, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

MEGO MORTGAGE CORPORATION

By.....

Attest:

.....
.

Section 2.3 Form of Reverse of Note.

This Note is one of a duly authorized issue of securities of the Company (herein called the "NOTES"), issued under an Indenture, dated as of _____ ___, 1996 (herein called the "INDENTURE"), among the Company, any Person that may from time to time become a party thereto as a Subsidiary Guarantor (as defined therein) by executing and delivering to the Trustee aJoinder of Subsidiary Guarantor (as defined therein), and American Stock Transfer & Trust Company, as Trustee (herein called the "TRUSTEE", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. This Note is one of the Notes designated on the face hereof, limited in aggregate principal amount to $40,000,000.

The Notes are subject to redemption upon not less than 30 days' and not more than 60 days' notice by mail, at any time on or after ......, ..., as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed during the 12-month period beginning ..... of the years indicated,

<TABLE>
<CAPTION>

Year	Redemption Price
<S>	<C>
.....	.....%
..... and thereafter	.....%

</TABLE>

, together in the case of any such redemption with accrued interest to the Redemption Date, but interest installments whose stated maturity is on or prior to such Redemption Date will be payable to the Holders of such Notes, or one or more Predecessor Notes, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

The Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time prior to ....., 1998, with the Net Cash Proceeds received by the Company from one or more Public Equity Offerings at a redemption price of .....% of the principal amount of the Notes redeemed, plus accrued and unpaid interest thereon; provided, however, that at least 65% of the original aggregate principal amount of Notes must remain outstanding after each such redemption; and provided, further, that such redemption must occur within 60 days after the closing date of any such Public Equity Offering.

In the event of redemption of this Note in part only, a new Note or Notes of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

Upon a Change of Control, the Holder of this Note will have the right to cause the Company to repurchase all or any part of this Note (which part must be $1,000 or any integral multiple thereof) at a repurchase price equal to 101% of the principal amount of this Note plus accrued and unpaid interest to the date of purchase (subject to the right of the Holders on the relevant Regular Record Date to receive interest due on the relevant Interest Payment Date) as provided in, and subject to the terms of, the Indenture. In addition, this Note is subject to repurchase under certain circumstances upon

the occurrence of an Asset Disposition, all as provided in the Indenture.

The Notes are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full in cash or cash equivalents of all Senior Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed. Each Holder by his acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on his behalf, to take

such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee his attorney-in-fact for such purposes.

The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness evidenced by this Note and (b) certain restrictive covenants, in each case upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

If an Event of Default with respect to Notes shall occur and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Note Register, upon surrender of this Note for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Note Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Notes are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes are exchangeable for a like aggregate principal amount of Notes of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of

transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 2.4 Form of Legend for Global Notes.

Any Global Note authenticated and delivered hereunder shall bear a legend in substantially the following form:

"This Note is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Note may not be transferred to, or registered or exchanged for Notes registered in the name of, any Person other than the Depositary or a custodian thereof or a successor of such Depositary or a custodian of such successor and no such transfer may be registered, except in the limited circumstances described in the Indenture. Every Note authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, this Note shall be a Global Note subject to the foregoing, except in such limited circumstances."

Section 2.5 Form of Trustee's Certificate of Authentication.

The Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Notes designated and referred to in the within-mentioned Indenture.

AMERICAN STOCK TRANSFER & TRUST COMPANY, as Trustee

By _____
Authorized Officer

Section 2.6 Form of Assignment and Election to Purchase.

Each Note shall include the following form of Assignment and Option of Holder to Elect Purchase:

ASSIGNMENT

(TO BE EXECUTED BY THE REGISTERED HOLDER

IF SUCH HOLDER DESIRES TO TRANSFER THIS NOTE)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto _____.

PLEASE INSERT SOCIAL SECURITY OR OTHER
TAX IDENTIFYING NUMBER OF TRANSFEREE

(PLEASE PRINT NAME AND ADDRESS OF TRANSFEREE)

this Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint _____ Attorney to transfer this Note on the Note Register, with full power of substitution.

Dated:

Signature of Holder Signature Guaranteed:

NOTICE: The signature to the foregoing Assignment must correspond to the Name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

OPTION OF HOLDER TO ELECT PURCHASE

(CHECK AS APPROPRIATE)

[ ] In connection with the Change of Control Purchase Offer made pursuant to Section 10.18 of the Indenture, the undersigned hereby elects to have

[ ] the entire principal amount

[ ] $ _____ ($1,000 in principal amount or an integral multiple thereof) principal amount of this Note repurchased by the Company. The undersigned hereby directs the Trustee or Paying Agent to pay it or an amount in cash equal to 101% of the principal amount indicated in the preceding sentence plus accrued and unpaid interest thereon to the date of purchase.

[] In connection with an Asset Disposition Purchase Offer made pursuant to Section 10.13 of the Indenture, the undersigned hereby elects to have

[ ] the entire principal amount

[ ] $_____ ($1,000 in principal amount or an integral multiple thereof) principal amount of this Note repurchased by the Company. The undersigned hereby directs the Trustee or Paying Agent to pay it or _____ an amount in cash equal to

100% of the principal amount indicated in the preceding sentence, plus accrued and unpaid interest thereon, if any, to the date of purchase.

Dated:

Signature of Holder Signature Guaranteed:

NOTICE: The signature to the foregoing must correspond to the Name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

ARTICLE THREE

THE NOTES

Section 3.1 Global Note; Depositary.

The Notes will initially be issued in the form of one or more Global Notes. Each Global Note will be deposited on the Issue Date with The Depository Trust Company (the "DEPOSITARY"), or the Trustee on its behalf, and registered in the name of Cede & Co., as nominee of the Depositary (such nominee being referred to herein as the "GLOBAL NOTE HOLDER").

Section 3.2 Amount.

The aggregate principal amount of Notes which may be authenticated and delivered under this Indenture is $40,000,000.00 (Forty Million Dollars and No Cents), except as for Notes authenticated and delivered pursuant to Section 3.5, 3.6, 3.7, [4.2], 10.13, 10.18 or 13.7.

Section 3.3 Denominations.

The Notes shall be issuable in registered form without coupons in denominations of $1,000 and any integral multiple thereof.

Section 3.4 Execution, Authentication, Delivery and Dating.

The Notes shall be executed on behalf of each Obligor by its Chairman of the Board, its Vice Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of any Obligor shall bind the Obligor, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did

not hold such offices at the date of such Notes.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by each Obligor to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with the Company Order shall authenticate and deliver such Notes.

Each Note shall be dated the date of its authentication.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature of an Responsible Officer, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Note shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Note to the Trustee for cancellation as provided in Section 3.10, for all purposes of this Indenture such Note shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 3.5 Temporary Notes.

Pending the preparation of definitive Notes, the Obligors may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Notes which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Notes in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Notes may determine, as evidenced by their execution of such Notes.

If temporary Notes are issued, the Company will cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes shall be exchangeable for definitive Notes upon surrender of the temporary Notes at the office or agency of the Company in a Place of Payment, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes the Obligors shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Notes of any authorized denominations and of a like aggregate principal amount and tenor. Until so exchanged the temporary Notes shall in all respects be entitled to the same benefits under this Indenture as definitive Notes of such tenor.

Section 3.6 Registration; Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office being herein sometimes collectively referred to as the "NOTE REGISTER") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Trustee is hereby appointed "Note Registrar" for the purpose of registering Notes and transfers of Notes as herein provided.

Upon surrender for registration of transfer of any Note at the office or agency in a Place of Payment, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and tenor.

At the option of the Holder, Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount and tenor, upon surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes which the Holder

making the exchange is entitled to receive.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

Every Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Note Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes, other than exchanges pursuant to Section 3.5, 3.6, 3.7, 10.13, 10.18 or 13.7 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Notes during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Notes selected for redemption under Section 13.3 and ending at the close of business on the day of such mailing, (ii) to register the transfer of or exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part, or (iii) to register the transfer of any Note in respect of which a Purchase Notice has been given until the earlier to occur of the withdrawal of such notice pursuant to Section 10.13 or 10.18 or the Purchase Date.

Section 3.7 Mutilated, Destroyed, Lost and Stolen Notes.

If any mutilated Note is surrendered to the Trustee, the Obligors shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Note of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Note and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to any Obligor or the Trustee that such Note has been acquired by a bona fide purchaser, the Obligors shall execute and the Trustee shall authenticate and deliver, in lieu of any

such destroyed, lost or stolen Note, a new Note of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Obligors in their discretion may, instead of issuing a new Note, pay such Note.

Upon the issuance of any new Note under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Obligors, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 3.8 Payment of Interest; Interest Rights Preserved.

Interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid in immediately

available funds to the Person in whose name that Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "DEFAULTED INTEREST") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date

for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Notes at his address as it appears in the Note Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on the Notes in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

Section 3.9 Persons Deemed Owners.

Prior to due presentment of a Note for registration of transfer, the Obligors, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Note is registered as the owner of such Note for the purpose of receiving payment of principal of and any premium and (subject to Section 3.8) any interest on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Obligors, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

So long as the Global Note Holder is the registered owner of any Notes, the Global Note Holder will be considered the sole Holder under this Indenture of any Notes evidenced by the Global Note for the purposes of receiving payment on the Notes, receiving notices, and for all other purposes under this Indenture and the Notes. Beneficial owners of Notes evidenced by the Global Note will not be considered the owners or Holders thereof under this Indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the Trustee thereunder. Neither the

Obligors nor the Trustee will have any responsibility or liability for any aspect of the records of the Depositary or for maintaining, supervising or reviewing any records of the Depositary relating to the Notes.

Section 3.10 Cancellation.

All Notes surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Notes previously authenticated hereunder which the Company has not issued and sold, and all Notes so delivered shall be promptly canceled by the Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Notes held by the Trustee shall be disposed of as directed by a Company Order.

Section 3.11 Computation of Interest.

Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

ARTICLE FOUR

BOOK-ENTRY PROVISIONS FOR GLOBAL NOTES

Section 4.1 Applicability of Article

Each Global Note shall be subject to this Article.

Section 4.2. Book-Entry Provisions For Global Note

(a) Members of, or participants in, the Depositary ("AGENT MEMBERS") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depositary or under the Global Note, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of the Global Note for all purposes whatsoever. Any Holder of the Global Note shall, by acceptance of such Global Note, agree that the transfers of beneficial interests in such Global Note may be effected only through a book-entry system maintained by the Holder of such Global Note (or its agent), and that ownership of a beneficial interest in the Global Note shall be required to be reflected in a book-entry system. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or an agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Note.

(b) The Depositary must, at the time of its designation and at all times while it serves as Depositary, be a clearing agency registered under the Exchange Act and any other applicable statute or regulation.

(c) Notwithstanding any other provision of this Section, unless and until it is exchanged in whole or in part for individual Notes represented thereby, a Global Note representing all or a portion of the Notes may not be transferred except as a whole by the Depositary to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. Interests of beneficial owners in the Global Notes (each an "INTEREST") may be transferred to one beneficial owner or to another Agent Member or exchanged for definitive

Notes in accordance with the rules and procedures of the Depositary and the provisions of this Indenture. In addition, definitive Notes shall be transferred to all beneficial owners in exchange for their beneficial interests in Global Notes if (i) the Depositary for the Notes notifies the Company that the Depositary is unwilling or unable to continue as Depositary for the Global Notes or is no longer eligible to serve as Depositary pursuant to the terms of this Indenture and a successor Depositary is not appointed by the Company within 90 days after delivery of such notice; (ii) the Company, at its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of definitive Notes under this Indenture, then the Company shall execute; or (iii) there shall have occurred and be continuing a Default with respect to any Notes represented by the Global Notes; and the Trustee shall, upon receipt of a Company Order in accordance with Section 3.4, authenticate and deliver, definitive Notes in an aggregate principal amount equal to the principal amount of the Global Notes in exchange for such Global Notes. If specified by the Company pursuant to Section 3.4, the Depositary may surrender a Global Note in exchange in whole or in part for Notes of like tenor and terms and in definitive form on such terms as are acceptable to the Company, the Trustee and the Depositary.

(d) In connection with the transfer of any Interest from one beneficial owner to another Agent Member not taking a definitive Note, but an Interest, pursuant to paragraph (c), the Depositary shall reflect on its books and records the date, the name of the transferor and transferee, and the amount of the Interest transferred.

(e) In connection with the transfer of Global Notes to beneficial owners pursuant to the third sentence of paragraph (c) or (h) of this Section, the Global Notes shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute and the Trustee upon receipt of a Company Order for the authentication and delivery of definitive Notes shall authenticate and deliver, without service charge:

(i) to the Depositary or to each Person specified by such Depositary a new Note or Notes of like tenor and terms and of any authorized denomination as requested by such Person in aggregate principal amount equal to and in exchange for such Person's beneficial interest in the Global Note; and

(ii) to such Depositary a new Global Note of like tenor and terms and in an authorized denomination equal to the difference, if any, between the principal amount of the surrendered Global Note and the aggregate principal amount of Notes delivered to Holders thereof.

Notwithstanding any other provision of this Indenture, any Note authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, any Global Note shall also be a Global Note and shall bear the legend specified in Section 2.4 except for any Note authenticated and delivered in exchange for, or upon registration of transfer of, a Global Note pursuant to the preceding sentence.

(f) The Holder of any Global Note may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Notes.

(g) Upon the exchange of a Global Note in its entirety for Notes in definitive form, such Global Note shall be canceled by the Trustee.

(h) Notwithstanding anything herein to the contrary, if at any time the Depositary for the Notes notifies the Company that it is unwilling or unable to continue as a Depositary for the Notes or if at any time the Depositary for the Notes shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation, the Company shall appoint a successor Depositary with respect to the Notes. If a successor Depositary for the Notes is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, the Company will execute, and the Trustee, upon Company Request, will authenticate and deliver Notes in definitive form in an aggregate principal amount equal to the principal amount of the Global Note or Global Notes representing Notes in exchange for such Global Note or Global Notes.

ARTICLE FIVE

REMEDIES

Section 5.1 Events of Default.

An "EVENT OF DEFAULT" as used herein is any one of the following:

(a) a default in the payment of interest on the Notes when due, continued for 30 days;

(b) a default in the payment of principal of and premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration of acceleration or otherwise;

(c) the failure by the Company or any Subsidiary Guarantor to comply with any of its obligations in Section 10.13, 10.18 or 10.20 or Article Eight or Eleven;

(d) the failure by the Company or any Subsidiary Guarantor to comply with any of its obligations in Section 7.4, 10.9, 10.10, 10.11, 10.12, 10.14, 10.15 or 10.16 and 30 days or more shall have expired after a Senior Officer of the Company first becomes aware of such failure;

(e) the failure by the Company or any Subsidiary Guarantor to comply, for 30 days after the notice specified below, in any material respect in the performance of or to breach any covenant, representation or warranty contained in this Indenture;

(f) Indebtedness of the Company or any Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $2,000,000;

(g) a decree, judgment or order by a court of competent jurisdiction shall have been entered adjudging the Company or any of its Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company or such Subsidiary under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of the Company or such Subsidiary, or of the property of any such person, or for the winding up for liquidation of the affairs of any such person, shall have been entered, and such decree, judgment or order shall have remained in force undischarged and unstayed for a period of 60 days; or the Company or any of its Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a custodian, receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or any of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall become insolvent or fail generally to pay its debts as they become due; or

(h) any judgment or decree for the payment of money in excess of $1,000,000 is rendered against the Company or a Subsidiary, remains outstanding for a period of 60 days following such judgment and is not discharged, waived or stayed; or

(i) any Subsidiary Guarantee ceases to be effective (except if permitted by Section 10.20), is held to be invalid in a judicial proceeding or its validity is contested by the Company or any Restricted Subsidiary.

A Default under subsection (e) is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Outstanding Notes notify the Company of the Default and the Company does not cure the Default within 30 days after receipt of the notice. The notice must

specify the Default, demand that it be remedied and state that the notice is a "NOTICE OF DEFAULT."

Section 5.2 Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in clause (g) of Section 5.1) with respect to Notes at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Notes may declare the principal amount of all of the Notes to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If any Event of Default specified in clause (g) of Section 5.1 occurs, such principal amount shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after such a declaration of acceleration with respect to Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Notes, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Notes,

(B) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Notes,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Notes, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Notes, other than the non-payment of the principal of Notes which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 5.3 Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any interest on any Note when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Note at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and

premium and on any overdue interest, at the rate or rates prescribed therefor in such Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may (or, at the direction of Holders of not less than 25% of the Outstanding Notes shall), in addition to any other remedies available to it, institute a judicial proceeding for the collection of the sums so due and unpaid and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company, any Subsidiary Guarantor or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company, any Subsidiary Guarantor or any other obligor upon the Notes, wherever situated. If an Event of Default with respect to Notes occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 5.4 Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company (or any other Obligor upon the Notes), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.7.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization,

arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; provided, however, the Trustee may vote on behalf of the Holders for the election of a trustee in bankruptcy or similar official and may be a member of a creditors' or other similar committee.

Section 5.5 Trustee May Enforce Claims Without Possession of Notes.

All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

Section 5.6 Application of Money Collected.

Any money collected by the Trustee pursuant to this Article or the Subsidiary Guaranty shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 6.7; and

SECOND: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the Notes in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Notes for principal and any premium and interest, respectively.

Section 5.7 Limitation on Suits.

No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;

(2) the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Notes;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 5.8 Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 3.8) any interest on such Note on the Stated Maturity or maturities expressed in such Note (or, in the case of redemption or repurchase, on the Redemption Date or Repurchase Date), and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 5.9 Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10 Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in the last paragraph of Section 3.7, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or

now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11 Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Notes to exercise any right or remedy accruing upon any Default shall impair any such right or remedy or constitute a waiver of any such Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 5.12 Control by Holders.

The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Notes, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) subject to the provisions of Section 6.1, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that the proceeding so directed would be unduly prejudicial to the rights of any other Holder or would involve the Trustee in personal liability.

Section 5.13 Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Note, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 5.14 Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Notes by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder for the enforcement of the payment of the principal of (or premium, if any) or interest

on any Notes on or after the Stated Maturity or maturities expressed in such Notes (or, in the case of redemption or repurchase, on or after the Redemption Date or Repurchase Date).

Section 5.15 Waiver of Usury, Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

Section 6.1 Certain Duties and Responsibilities.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section. If an Event of Default occurs (and is not cured), the Trustee, in the exercise of its power, must use the degree of care of a prudent man in the conduct of his own affairs. Subject to the requirement in the foregoing sentence, the Trustee is under no obligation to exercise any of its rights or powers under this Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of this Indenture.

Section 6.2 Notice of Defaults.

If a Default occurs and is continuing and is known to the Trustee, the Trustee shall mail to each Holder notice of the Default within 60 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers determines that withholding notice is not opposed to the interest of the Holders.

Section 6.3 Certain Rights of Trustee.

Subject to the provisions of Section 6.1:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of any Obligor mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors of any Obligor may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee

shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 6.4 Not Responsible for Recitals or Issuance of Notes.

The recitals contained herein and in the Notes, except the Trustee's certificate of authentication, shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Notes or the proceeds thereof.

Section 6.5 May Hold Notes.

The Trustee, any Authenticating Agent, any Paying Agent, any Note Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Sections 6.8 and 6.13, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Note Registrar or such other agent.

Section 6.6 Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 6.7 Compensation and Reimbursement.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith;

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder,

including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder; and

(4) when the Trustee incurs any expenses or renders any services after the occurrence of an Event of Default specified in Section 5.1(g), such expenses and the compensation for such services are intended to constitute expenses of administration under the Bankruptcy Code or any similar federal or state law for the relief of debtors.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Trustee as such, except funds (i) held in trust for the payment of principal of and interest on Notes or (ii) held in the Trustee's capacity as Paying Agent.

The obligations of the Company under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute an additional obligation hereunder and shall survive the satisfaction and discharge of this Indenture and the resignation or removal of the Trustee and each predecessor Trustee.

Section 6.8 Disqualification; Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

Section 6.9 Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $10,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.10 Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.11.

(b) The Trustee may resign at any time with respect to the Notes by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 6.11 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Notes.

(c) The Trustee may be removed at any time with respect to the Notes by Act of the Holders of a majority in principal amount of the Outstanding Notes, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 6.8

after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Note for at least six months, or

(2) the Trustee shall cease to be eligible under Section 6.9 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all securities, or (ii) subject to Section 5.14, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Notes and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Notes, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Notes and shall comply with the applicable requirements of Section 6.11. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Notes shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 6.11, become the successor Trustee with respect to the Notes and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Notes shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 6.11, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Notes.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Notes and each appointment of a successor Trustee with respect to the Notes to all Holders of Notes in the manner provided in Section 1.6. Each notice shall include the name of the successor Trustee with respect to the Notes and the address of its Corporate Trust Office.

Section 6.11 Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee with respect to the Notes, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) of this Section.

(c) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 6.12 Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such Notes.

Section 6.13 Preferential Collection of Claims Against Company.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Notes), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

Section 6.14 Appointment of Authenticating Agent.

The Trustee may appoint an Authenticating Agent or Agents (which may be an affiliate of the Company) with respect to the Notes which shall be authorized to act on behalf of the Trustee to authenticate Notes issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 3.7, and Notes so authenticated shall

be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Notes by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any state thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $500,000,000 and subject to supervision or examination by federal or state authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Notes with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Note Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent

shall be appointed unless eligible under the provisions of this Section.

Unless the Authenticating Agent has been appointed by the Trustee at the request of the Company, the Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 6.7.

If an appointment is made pursuant to this Section, the Notes may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Notes designated and referred to in the within-mentioned Indenture.

AMERICAN STOCK TRANSFER & TRUST COMPANY
as Trustee

By

As Authenticating Agent

By

Authorized Officer

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.1 Company to Furnish Trustee Names and Addresses of Holders,

(a) The Company will furnish or cause to be furnished to the Trustee:

(i) semi-annually, not later than five Business Days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Notes as of such Regular Record Date, and

(ii) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

excluding from any such list names and addresses received by the Trustee in its capacity as Note Registrar.

(b) If and whenever the Company or any Affiliate acquires any Notes, the Company shall within 10 Business Days after such acquisition by the Company and within 10 Business Days after the date on which it obtains knowledge of any such acquisition by an Affiliate, provide the Trustee with written notice of such acquisition, the aggregate principal

amount acquired (to the extent known by the Company), the Holder from whom such Notes were acquired and the date of such acquisition.

Section 7.2 Preservation of Information; Communications to Holders.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.1 and the names

and addresses of Holders received by the Trustee in its capacity as Note Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.1 upon receipt of a new list so furnished.

(b) The rights of the Holders to communicate with other Holders with respect to their rights under this Indenture or under the Notes, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Notes, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 7.3 Reports by Trustee.

(a) The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. To the extent that any such report is required by the Trust Indenture Act with respect to any 12-month period, such report shall cover the 12-month period ending _____ and shall be transmitted by the next succeeding _____.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Notes are listed, with the SEC and with the Company. The Company will notify the Trustee when any Notes are listed on any stock exchange.

Section 7.4 Reports by Company.

The Company shall file with the SEC and shall furnish to the Trustee and the Holders, within 15 days after it files them with the SEC, copies of its annual report and the information, documents and other reports which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall continue to file with the SEC and to provide to the Trustee and the Holders the annual reports and the information, documents and other reports which are specified in Section 13 or 15(d) of the Exchange Act and applicable to a US corporation subject to such sections, such information, documents and other reports to be filed and provided at the

times specified for the filing of such information, documents and reports under such section. The Company also shall comply with the other provisions of TIA ss. 314(a).

ARTICLE EIGHT

SUBSIDIARY GUARANTEES

Section 8.1 Subsidiary Guarantee.

Each Subsidiary Guarantor unconditionally and jointly and severally with all other Subsidiary Guarantors guaranties and promises to pay to the Holders and the Trustee (each a "BENEFICIARY"), on demand made at any time while an Event of Default exists, in lawful money of the United States of America, any and all Obligations of the Company from time to time owed to the Beneficiaries. Each Subsidiary Guarantor further agrees to pay on demand any and all costs and expenses (including reasonable attorneys' fees) incurred by any Beneficiary in enforcing any rights under the Subsidiary Guarantees. The term "OBLIGATIONS" means any and all present and future obligations and liabilities of the Company of every type and description to the Beneficiaries under this Indenture, the Notes and the Subsidiary Guarantees, whether for principal, premium (if any), interest, expenses, indemnities or other amounts, in each case whether due or not due, absolute or contingent, voluntary or involuntary, liquidated or unliquidated, determined or undetermined, now or hereafter existing, renewed or restructured, whether or not from time to time decreased or extinguished and later increased, created or incurred, whether or not arising after the commencement of a proceeding under the Bankruptcy Code (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding, and whether or not recovery of any such obligation or

liability may be barred by a statute of limitations or such obligation or liability may otherwise be unenforceable. All Obligations shall be conclusively presumed to have been created in reliance on each Subsidiary Guarantee. Each Subsidiary Guarantee shall be a continuing guaranty of the Obligations and, except as otherwise provided in Section 10.20, may not be revoked and shall not otherwise terminate unless and until any and all Obligations have been indefeasibly paid and performed in full. Each Subsidiary that executes and delivers to the Trustee from time to time aJoinder of Subsidiary Guarantor shall be a Subsidiary Guarantor as if such Subsidiary had been a signatory to this Indenture, and no such Joinder of Subsidiary Guarantor must be executed and delivered by any other Obligors. Each Obligor hereby consents to any such Joinder, whether or not it receives notice thereof.

Section 8.2 Nature of Subsidiary Guarantee.

The liability of each Subsidiary Guarantor under its Subsidiary Guarantee shall be independent of and not in consideration of or contingent upon the liability of the Company or any other Obligor and a separate action or actions may be brought and prosecuted against any Subsidiary Guarantor, whether or not any action is brought or prosecuted against the Company or any other Obligor or whether the Company or any other Obligor is joined in any such action or actions. The Subsidiary Guarantee given by each Subsidiary Guarantor shall be construed as a continuing, absolute and unconditional guaranty of payment (and not merely of collection) without regard to:

(a) the legality, validity or enforceability of the Notes, this Indenture, any of the Obligations, any Lien or collateral securing the Obligations ("COLLATERAL") or the Subsidiary Guarantee given by any other Subsidiary Guarantor;

(b) any defense (other than payment), set-off or counterclaim that may at any time be available to the Company or any other Obligor against, and any right of setoff at any time held by, any Beneficiary; or

(c) any other circumstance whatsoever (with or without notice to or knowledge of any Subsidiary Guarantor or any other Obligor), whether or not similar to any of the foregoing, that constitutes, or might be construed to constitute, an equitable or legal discharge of the Company or any other Obligor, in bankruptcy or in any other instance.

Any payment by any Obligor or other circumstance that operates to toll any statute of limitations applicable to such Obligor shall also operate to toll the statute of limitations applicable to each Subsidiary Guarantor.

Section 8.3 Authorization.

Each Subsidiary Guarantor authorizes each Beneficiary, without notice to or further assent by such Subsidiary Guarantor, and without affecting any Subsidiary Guarantor's liability hereunder (regardless of whether any subrogation or similar right that such Subsidiary Guarantor may have or any other right or remedy of such Subsidiary Guarantor is extinguished or impaired), from time to time to do any or all of the following:

(a) permit the Company to increase or create Obligations, or terminate, release, compromise, subordinate, extend, accelerate or otherwise change the amount or time, manner or place of payment of, or rescind any demand for payment or acceleration of, the Obligations or any part thereof, consent or enter into supplemental indentures or otherwise amend the terms and conditions of this Indenture, the Notes or any provision hereof or thereof;

(b) take and hold Collateral from any Obligor, perfect or refrain from perfecting a Lien on such Collateral, and exchange, enforce, subordinate, release (whether intentionally or unintentionally), or take or fail to take any other action in respect of, any such Collateral or Lien or any part thereof;

(c) exercise in such manner and order as it elects in its sole discretion, fail to exercise, waive, suspend, terminate or suffer

expiration of, any of the remedies or rights of such Beneficiary against the Company or any other Obligor in respect of any Obligations or any Collateral;

(d) release, add or settle with any Obligor in respect of the Subsidiary Guarantee or the Obligations;

(e) accept partial payments on the Obligations and apply any and all payments or recoveries from such Obligor or Collateral to such of the Obligations as any Beneficiary may elect in its sole discretion, whether or not such Obligations are secured or Guaranteed;

(f) refund at any time, at such Beneficiary's sole discretion, any payments or recoveries received by such Beneficiary in respect of any Obligations or Collateral; and

(g) otherwise deal with the Company or any other Obligor as such Beneficiary may elect in its sole discretion.

Section 8.4 Certain Waivers.

Each Subsidiary Guarantor waives:

(a) the right to require the Beneficiaries to proceed against the Company or any other Obligor or to pursue any other remedy in any Beneficiary's power whatsoever and the right to have the property of the Company or any other Obligor first applied to the discharge of the Obligations;

(b) all rights and benefits under Applicable Law purporting to reduce a guarantor's obligations in proportion to the obligation of the principal or providing that the obligation of a surety or guarantor must neither be larger nor in other respects more burdensome than that of the principal;

(c) the benefit of any statute of limitations affecting the Obligations or any Subsidiary Guarantor's liability hereunder;

(d) any requirement of marshaling or any other principle of election of remedies;

(e) any right to assert against any Beneficiary any defense (legal or equitable) other than the defense of payment, set-off, counterclaim and other right that any Subsidiary Guarantor may now or any time hereafter have against the Company or any other Obligor;

(f) presentment, demand for payment or performance (including diligence in making demands hereunder), notice of dishonor or nonperformance, protest, acceptance and notice of acceptance of this Subsidiary Guarantee, and, except to the extent expressly required by this Indenture, all other notices of any kind, including (i) notice of any action taken or omitted by the Beneficiaries in reliance hereon, (ii) notice of any default by the Company or any other Obligor, (iii) notice that any portion of the Obligations is due, (iv) notice of any action against the Company or any other Obligor or any Collateral or the assertion of any right of any Beneficiary hereunder; and

(g) all defenses that at any time may be available to any Subsidiary Guarantor by virtue of any valuation, stay, moratorium or other law now or hereafter in effect.

Section 8.5 No Subrogation; Certain Agreements.

(a) EACH SUBSIDIARY GUARANTOR WAIVES ANY AND ALL RIGHTS OF SUBROGATION, INDEMNITY OR REIMBURSEMENT, AND ANY AND ALL BENEFITS OF AND RIGHTS TO ENFORCE ANY POWER, RIGHT OR REMEDY THAT ANY BENEFICIARY MAY NOW OR HEREAFTER HAVE IN RESPECT OF THE OBLIGATIONS AGAINST THE COMPANY OR ANY OTHER OBLIGOR (OTHER THAN RIGHTS OF CONTRIBUTION FROM OTHER SUBSIDIARY GUARANTORS), AND ANY AND ALL OTHER RIGHTS AND CLAIMS

(AS DEFINED IN THE BANKRUPTCY CODE) ANY SUBSIDIARY GUARANTOR MAY HAVE AGAINST THE COMPANY, UNDER APPLICABLE LAW OR OTHERWISE, AT LAW OR IN EQUITY, BY REASON OF ANY PAYMENT UNDER THE SUBSIDIARY GUARANTEE, UNLESS AND UNTIL THE OBLIGATIONS SHALL HAVE BEEN PAID IN FULL.

(b) Each Subsidiary Guarantor assumes the responsibility for being and keeping itself informed of the financial condition of each other Obligor and of all other circumstances bearing upon the risk of nonpayment of the Obligations or the Subsidiary Guarantee of any other Subsidiary Guarantor that diligent inquiry would reveal, and agrees that the Beneficiaries shall have no duty to advise any Subsidiary Guarantor of information regarding such condition or any such circumstances.

Section 8.6 Bankruptcy No Discharge.

(a) Without limiting Section 8.2, the Subsidiary Guarantee shall not be discharged or otherwise affected by any bankruptcy, reorganization or similar proceeding commenced by or against the Company or any other Obligor, including (i) any discharge of, or bar or stay against collecting, all or any part of the Obligations in or as a result of any such proceeding, whether or not assented to by any Beneficiary, (ii) any disallowance of all or any portion of any Beneficiary's claim for repayment of the Obligations, (iii) any use of cash or other collateral in any such proceeding, (iv) any agreement or stipulation as to adequate protection in any such proceeding, (v) any failure by any Beneficiary to file or enforce a claim against the Company or any other Obligor or its estate in any bankruptcy or reorganization case, (vi) any amendment, modification, stay or cure of any Beneficiary's rights that may occur in any such proceeding, (vii) any election by any Beneficiary under Section 1112(b)(2) of the Bankruptcy Code, or (viii) any borrowing or grant of a Lien under Section 364 of the Bankruptcy Code. Each Subsidiary Guarantor understands and acknowledges that by virtue of its Subsidiary Guarantee, it has specifically assumed any and all risks of any such proceeding with respect to the Company and each other Obligor.

(b) Notwithstanding anything in this Article to the contrary, any Event of Default under Section 5.1(g) of this Indenture shall render all Obligations, and all obligations of each Subsidiary Guarantor under its Subsidiary Guaranty, automatically due and payable for purposes of the Subsidiary Guarantee, without demand on the part of the Trustee or any Holder.

(c) Notwithstanding anything to the contrary herein contained, the Subsidiary Guarantees shall continue to be effective or be reinstated, as the case may be, if at any time any payment, or any part thereof, of any or all of the Obligations is rescinded, invalidated, declared to be fraudulent or preferential or otherwise required to be restored or returned by any Beneficiary in connection with any bankruptcy, reorganization or similar proceeding involving the Company, any other Obligor or otherwise or if any Beneficiary elects to return any such payment or any part thereof in its sole discretion, all as though such payment had not been made.

Section 8.7 Severability of Void Obligations under Subsidiary Guarantee.

The obligations of each Subsidiary Guarantor hereunder shall be limited to the maximum amount that would not render its obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any applicable provisions of comparable state law.

Section 8.8 Right of Contribution.

In order to provide for just and equitable contribution among the Subsidiary Guarantors in connection with the Subsidiary Guarantees, the Subsidiary Guarantors have agreed among themselves that if any Subsidiary Guarantor satisfies some or all of the Obligations (a "FUNDING SUBSIDIARY GUARANTOR"), the Funding Subsidiary Guarantor shall be entitled to contribution from the other Subsidiary Guarantors that have positive Maximum Net Worth (as defined below) for all payments made by the Funding Subsidiary Guarantor in satisfying the Obligations, so that each Subsidiary Guarantor that remains obligated under the Subsidiary Guarantee at the time that a Funding Subsidiary Guarantor makes such payment (A "REMAINING SUBSIDIARY GUARANTOR") and has a

positive Maximum Net Worth shall bear a portion of such payment equal to the percentage that such Remaining Subsidiary Guarantor's Maximum Net Worth bears to the aggregate Maximum Net Worth of all Remaining Subsidiary Guarantors that have positive Maximum Net Worth.

As used herein, "NET WORTH" means, with respect to any Subsidiary Guarantor, the amount, as of any date of calculation, by which the sum of a Person's assets (including subrogation, indemnity, contribution, reimbursement and similar rights that such Subsidiary Guarantor may have), determined on the basis of a "fair valuation" or their "fair salable value" (whichever is the applicable test under Section 548 and other relevant provisions of the Bankruptcy Code and the relevant state fraudulent conveyance or transfer laws) is greater than the amount that will be required to pay all of such Person's debts, in each case matured or unmatured, contingent or otherwise, as of the date of calculation, but excluding liabilities arising under the Subsidiary Guarantee and excluding, to the maximum extent permitted by Applicable Law with the objective of avoiding rendering such Person insolvent, liabilities subordinated to the Obligations arising out of loans or advances made to such Person by any other Person. "MAXIMUM NET WORTH" means, with respect to any Subsidiary Guarantor, the greatest of the Net Worths calculated as of the following dates: (A) the date on which the Subsidiary Guarantor becomes a Subsidiary Guarantor hereunder, (B) the date on which such Subsidiary Guarantor expressly reaffirms the Subsidiary Guarantee, (C) the date on which demand for payment is made

on such Subsidiary Guarantor hereunder, (D) the date on which payment is made by such Subsidiary Guarantor hereunder or (E) the date on which any judgment, order or decree is entered requiring such Subsidiary Guarantor to make payment hereunder or in respect hereof. The meaning of the terms "FAIR VALUATION" and "FAIR SALABLE VALUE" and the calculation of assets and liabilities shall be determined and made in accordance with the relevant provisions of the Bankruptcy Code and applicable state fraudulent conveyance or transfer laws.

ARTICLE NINE

AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 9.1 Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Obligors, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto (which term shall include any Joinder of Subsidiary Guarantor), in form satisfactory to the Trustee, for any of the following purposes:

(a) to evidence the succession of another Person to any Obligor, and the assumption by any such successor of the covenants of such Obligor herein and in the Notes;

(b) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided, that such uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(c) to add to the covenants of the Obligors for the benefit of the Holders, to surrender any right or power herein conferred upon any Obligor, or to add Subsidiary Guaranties with respect to the Notes;

(d) to cure any ambiguity, to correct or supplement any provision herein that may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture that shall not be inconsistent with the provisions of this Indenture; provided that, in each case, such provisions shall not adversely affect the interests of the Holders;

(e) to evidence, and provide for the acceptance of, the appointment of a successor Trustee hereunder;

(f) to comply with Section 10.20; or

(g) to comply with any requirement of the SEC or state securities regulators in connection with the qualification of this Indenture under the Trust Indenture Act or any registration or qualification of the Notes under the Securities Act or state securities laws.

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Section 9.2 Supplemental Indentures with Consent of Holders.

(a) Except as otherwise provided in Section 9.2(b), with the written consent of the Holders of a majority in principal amount of the Outstanding Notes, by Act of such Holders delivered to the Company and the Trustee, the Obligors, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating or waiving any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Note affected thereby,

(A) extend the Stated Maturity of the principal of, or the stated maturity of any installment of interest on, any Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption or repurchase thereof, or change the coin or currency in which the principal of any Note or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment after the Stated Maturity or due date thereof (or, in the case of redemption, after the Redemption Date or, in the case of repurchase, after the Purchase Date), or affect the ranking (in terms of right or time of payment) of the Notes or the Subsidiary Guarantee,

(B) release any Subsidiary Guarantor from any Subsidiary Guarantee (except as contemplated by Section 10.20 or Section 11.2) or amend Article Eight, except as contemplated by Article Eleven,

(C) reduce the percentage in principal amount of the Outstanding Notes the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with the provisions of this Indenture or Defaults hereunder and their consequences) provided for in this Indenture,

(D) modify any provision of Article Twelve with respect to the subordination of the Notes;

(E) modify any provision of Section 13.2 or the definitions used therein if the effect of such modification or waiver is to decrease the amount of any payment required to be made by the Company thereunder or extend the maturity date of such payment, or

(F) modify any of the provisions of this Section or Section 5.13, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby.

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(b) It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act and such notice shall approve the substance thereof.

Section 9.3 Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall receive, and (subject to Section 6.1) shall be fully protected in relying upon, an Opinion of Counsel stating that this Indenture, as amended by such supplemental indenture, constitutes the legal, valid and binding obligation of all Obligors, enforceable against each of them in accordance with its terms.

Section 9.4 Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby and entitled to the benefits thereof (including the benefit of any Joinder of Subsidiary Guarantor).

Section 9.5 Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 9.6 Reference in Notes to Supplemental Indentures.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form acceptable to the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any such supplemental indenture may be prepared and executed by the Obligors and authenticated and delivered by the Trustee in exchange for Outstanding Notes. Without limitation of Section 9.4, (a) in the case of any Joinder of Subsidiary Guarantor, whether or not any or all new Notes are so executed, authenticated and exchanged for previously Outstanding Notes, the Subsidiary Guarantor added by such Joinder shall be obligated with respect to its Subsidiary Guarantee as if all Outstanding Notes had been exchanged for Notes executed by all Obligors, including such Subsidiary Guarantor, or (b) in the case of the release of a Subsidiary Guarantor pursuant to the terms hereof, whether or not any or all new Notes are so executed, authenticated and exchanged for previously Outstanding Notes, such Subsidiary Guarantor shall be released from the Subsidiary Guarantee as if all Outstanding Notes had been exchanged for Notes not executed by such Subsidiary Guarantor.

Section 9.7 Notice of Supplemental Indenture.

After an supplemental indenture hereunder becomes effective, the Company shall mail to Holders a notice briefly describing such supplemental indenture; provided, that the failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of the supplemental indenture.

ARTICLE TEN

COVENANTS

Section 10.1 Payment of Principal, Premium and Interest.

The Company covenants and agrees for the benefit of the Notes that it will duly and punctually pay the principal of (and premium, if any, on) and interest on the Notes in accordance with the terms of the Notes and this Indenture.

All payments of principal, premium, if any, and interest will be made by the Company in immediately available funds. The Notes shall be included in the Same-Day Funds Settlement System of The Depository Trust Company until maturity.

Section 10.2 Maintenance of Office or Agency.

The Company will maintain in the Borough of Manhattan, City of New York, State of New York, an office or agency where Notes may be presented or surrendered for payment (a "PLACE OF PAYMENT"), where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Obligors in respect of the Notes and this Indenture may be served. Initially, the Company hereby designates the Corporate Trust Office of the Trustee for all such purposes. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Notes for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 10.3 Money for Notes Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to the Notes, it will, on or before each due date of the principal of or any premium or interest on any of the Notes, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure to act.

Whenever the Company shall have one or more Paying Agents for the Notes, it will, prior to each due date of the principal of or any premium or interest on any Notes, deposit with a Paying Agent, in immediately available funds, a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section that such Paying Agent will:

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Notes) in the making of any such payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Note and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the

Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before

being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, the City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 10.4 Statement by Officers as to Default.

(a) The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate (one of the signers of which shall be the principal executive officer, principal financial officer or principal accounting officer of the Company), stating whether or not to the best knowledge of the signers thereof the Company is, or was during the preceding year, in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be or shall have been in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

(b) When any Default has occurred and is continuing under this Indenture, or if the trustee for or the holder of any other evidence of Indebtedness of the Company or any Subsidiary gives notice or takes any other action with respect to a claimed default, the Company shall deliver to the Trustee by registered or certified mail, or by facsimile transmission, its status, and what action the Company or such Subsidiary is taking or proposes to take in respect thereof within 30 days after a Senior Officer of the Company or any Subsidiary becomes aware of the occurrence thereof, an Officers' Certificate specifying such event, notice or other action.

Section 10.5 Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Restricted Subsidiary or upon the income, profits or property of the Company or any Restricted Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Restricted Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves (in the good faith judgment of the Board of Directors) have been made.

Section 10.6 Maintenance of Properties.

The Company will cause all properties owned by the Company or any Restricted Subsidiary or used or held for use in the conduct of its business or the business of any Restricted Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals,

replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided,

however, that nothing in this Section shall prevent the Company or any Restricted Subsidiary from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Board of Directors (or, in the case of real estate owned properties, in the judgment of a Senior Officer), desirable in the conduct of its business or the business of the Company or such Restricted Subsidiary and not disadvantageous in any material respect to the Holders.

Section 10.7 Corporate Existence; Keeping of Books.

Subject to Article Eleven, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect the existence, rights (charter and statutory) and franchises of the Company and its Restricted Subsidiaries; provided, however, that the existence of any Restricted Subsidiary and any such right or franchise of the Company or any Restricted Subsidiary may be terminated if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries and that the loss thereof is not and is not reasonably likely to be disadvantageous in any material respect to the Holders.

The Company shall keep, and cause each Restricted Subsidiary to keep, proper books and records, in which full and correct entries shall be made of all financial transactions and the assets, liabilities and business of the Company and its Subsidiaries, in each case in accordance with GAAP.

Section 10.8 Insurance.

The Company will at all times maintain and will cause each of its Restricted Subsidiaries to maintain (either in the name of the Company or in such Subsidiary's own name) with financially sound and reputable insurers, insurance on all its properties in such amounts as management of the Company reasonably determines is appropriate under the circumstances.

Section 10.9 Limitations on Indebtedness.

(a) The Company will not Incur, and the Company will not permit any Restricted Subsidiary to Incur, directly or indirectly, any Indebtedness or Disqualified Stock if, on the date of such Incurrence and after giving effect thereto, the Consolidated Leverage Ratio exceeds 2.0 to 1.0.

(b) Notwithstanding the foregoing paragraph (a), the Company and its Restricted Subsidiaries may Incur the following Indebtedness:

(1) Permitted Warehouse Indebtedness and Guarantees by the Company of any Permitted Warehouse Indebtedness of Restricted Subsidiaries, provided that (i) on the date of such Incurrence and giving effect to any such Incurrence, the aggregate principal amount of Permitted Warehouse Indebtedness permitted under this clause (1), together with the amount of all then outstanding

Warehouse Indebtedness (other than Permitted Warehouse Indebtedness) of the Company and its Restricted Subsidiaries permitted under clause (a) above, shall not exceed 300% of Consolidated Net Worth at such time, and (ii) that to the extent any such Indebtedness ceases to constitute Permitted Warehouse Indebtedness of the Company or a Restricted Subsidiary, such event shall be deemed to constitute the Incurrence of such Indebtedness (and any such Guarantees, but without duplication) by the Company or such Subsidiary, as the case may be;

(2) the Notes and the Subsidiary Guarantees;

(3) Hedging Obligations directly related to: (i) Indebtedness permitted to be Incurred by the Company or the Restricted Subsidiaries pursuant to this Section; (ii) Receivables held by the Company or its Restricted Subsidiaries pending sale or that have been sold pursuant to a Warehouse Facility; or (iii) Receivables with respect to which the Company or any Restricted Subsidiary has an outstanding purchase or offer commitment, financing commitment or security

interest;

(4) Indebtedness outstanding on the Issue Date (other than Permitted Warehouse Indebtedness and Guarantees thereof, which shall be permissible under this paragraph (b) only pursuant to clause (1) above);

(5) Indebtedness or Disqualified Stock issued to and held by the Company or a Wholly Owned Restricted Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of such Indebtedness or Disqualified Stock (other than to the Company or a Wholly Owned Restricted Subsidiary) will be deemed, in each case, to constitute the Incurrence of such Indebtedness or issuance of such Disqualified Stock by the issuer thereof;

(6) Indebtedness or Disqualified Stock of a Restricted Subsidiary Incurred on or prior to the date on which such Subsidiary was acquired by the Company, other than Indebtedness or Disqualified Stock Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company; provided, however, that on the date of such acquisition and after giving effect thereto, the Company would have been able to Incur at least $1.00 of Indebtedness pursuant to paragraph (a) above; and

(7) while no Default or Event of Default exists, Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or clause (4) or (6) of this paragraph (b).

(c) Notwithstanding the foregoing, (i) the Company and its Restricted Subsidiaries may not Incur any Indebtedness (other than the Notes and the Subsidiary Guarantees) if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness unless such Indebtedness is a Junior Subordinated Obligation, (ii) the Company and its Restricted Subsidiaries shall not Incur any Indebtedness if the proceeds thereof are used, directly or indirectly, to Refinance any Junior Subordinated Obligations unless such Indebtedness shall be subordinated to the Notes or the Subsidiary Guarantees, as applicable, to at least the same extent as such Junior Subordinated Obligations, and (iii) no Restricted Subsidiary that is not a Subsidiary Guarantor shall incur, directly or indirectly, any Indebtedness. Unsecured Indebtedness is not deemed to be subordinate or junior to secured Indebtedness merely because it is unsecured.

(d) For purposes of determining compliance with the foregoing: (i) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Company, in good faith, will classify such item of Indebtedness and be required to include the amount and type of such Indebtedness in one of the above clauses; and (ii) an item of Indebtedness may be divided and classified in more than one of the types of Indebtedness described above.

Section 10.10 Limitation on Preferred Stock of Restricted Subsidiaries.

The Company will not permit any Restricted Subsidiary to Incur, directly or indirectly, any Preferred Stock except:

(a) Preferred Stock issued to and held by the Company or a Wholly Owned Restricted Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock that results in any such Wholly Owned Restricted Subsidiary ceasing to be a Wholly Owned Restricted Subsidiary or any subsequent transfer of such Preferred Stock (other than to the Company or a Wholly Owned Restricted Subsidiary) will be deemed, in each case, to constitute the Incurrence of such Preferred Stock by the issuer thereof; and

(b) Preferred Stock of a Restricted Subsidiary Incurred or issued and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Company, other than Preferred Stock Incurred or issued in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Restricted Subsidiary or was acquired by the Company; provided, however, that on the date of such acquisition and after giving effect thereto, the Company would have been able to Incur at least $1.00 of Indebtedness pursuant to paragraph (a) of Section 10.9.

Section 10.11 Limitation on Restricted Payments.

(a) The Company will not make, and will not permit any Restricted Subsidiary to make, directly or indirectly, a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment: (i) a Default shall have occurred and be continuing

(or would result therefrom); (ii) the Company is not able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of Section 10.9; or (iii) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of: (A) 33% of the Consolidated Adjusted Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter prior to the date of such Restricted Payment for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); and (B) the aggregate Net Cash Proceeds received by the Company from the issuance or sale after the Issue Date of (1) Capital Stock of the Company (other than Disqualified Stock) or (2) debt securities of the Company, but only if, when and to the extent such debt securities have been converted into any such Capital Stock (other than, in each case, an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees).

(b) While no Default or Event of Default exists, the provisions of the foregoing paragraph (a) shall not prohibit: (i) any purchase or redemption of Capital Stock or Junior Subordinated Obligations of the Company to the extent made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to (A) a Subsidiary of the Company or (B) an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees, except to the extent that the funds used by such plan or trust are attributable to employee contributions); provided, however, that (A) such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale shall be excluded from the calculation of amounts under clause (iii)(B) of paragraph (a) above; (ii) any payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Junior Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of the Company that is permitted to be Incurred pursuant to Section 10.9; provided, however, that, such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments; and (iii) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Section; provided, however, that such dividend shall be included in the calculation of the amount of Restricted Payments.

No later than the date on which any Restricted Payment is made, the Company shall deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by the foregoing covenant were computed. The amount of all Restricted Payments made other than in cash shall be the fair market value thereof on the date of the Restricted Payment, as evidenced by a Board Resolution.

Section 10.12 Limitations on Dividends and Other Payment Restrictions Affecting Subsidiaries.

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary (a) to pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company or any Restricted Subsidiary, (b) to make any loans or advances to the Company or any Restricted Subsidiary or (c) to transfer any of its property or assets to the Company or any Restricted Subsidiary, except: (i) any encumbrance or restriction pursuant to an agreement in effect at the Issue Date and listed on Schedule 10.12 attached hereto; (ii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement applicable to such Subsidiary prior to the date on which such Subsidiary was acquired by the Company (other than an agreement entered into in connection with, or in anticipation of, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company) and outstanding on such date; (iii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to any other agreement contained in any amendment to an agreement referred to in clause (i) or (ii) of this Section or this clause (iii); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such amendment are no less favorable to the Holders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in the agreements referred to in clause (i) or (ii) of this Section, as the case may be; (iv) any such encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder; (v) in the case of clause (c) above, restrictions contained in security agreements or mortgages securing Indebtedness of a Restricted Subsidiary otherwise permissible under this Indenture to the extent such restrictions restrict the transfer of the property subject to such security agreements or mortgages; (vi) with respect to the ability of a Restricted Subsidiary to pay dividends or make any other distributions on its Capital Stock to the Company, any Permitted Warehouse Indebtedness Limitation; and (vii) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition.

Section 10.13 Limitation on Sales of Assets and Subsidiary Stock.

(a) The Company will not consummate, and will not permit any Restricted Subsidiary to consummate, directly or indirectly, any Asset Disposition unless: (i) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of any non-cash consideration), as determined in good faith by the Board of Directors, of the shares and assets subject to such Asset Disposition and at least 85% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or Temporary Cash Investments; (ii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Restricted Subsidiary, as the case may be):

(A) first, to the extent the Company or such Restricted Subsidiary elects either (x) to acquire Additional Assets or (y) to prepay, repay, redeem or purchase Senior Indebtedness of the Company or such Restricted Subsidiary, as the case may be (other than in either case Indebtedness owed to the Company or an Affiliate of the Company), in each case within 180 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), for the Company to make an offer to the Holders of the Notes to purchase Notes pursuant to and subject to this

Section (an "ASSET DISPOSITION PURCHASE OFFER"); and

(C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to any application not prohibited by this Indenture;

and (iii) at the time of such Asset Disposition no Default shall have occurred and be continuing (or would result therefrom). Pending application of Net Available Cash pursuant to this Section, such Net Available Cash shall be invested in Temporary Cash Investments.

For the purposes of this Section, the following are deemed to be cash: (x) the assumption of Indebtedness (other than Junior Subordinated Obligations) of the Company or any Restricted Subsidiary, and the release of the Company or such Subsidiary from all liability on such Indebtedness, in connection with such Asset Disposition and (y) securities received by the Company or any Restricted Subsidiary from the transferee that are promptly converted by the Company or such Subsidiary into cash or Temporary Cash Investments.

(b) In the event of an Asset Disposition that requires an Asset Disposition Purchase Offer, the Company shall be required to purchase Notes tendered pursuant to such offer by the Company for the Notes at a purchase price of 100% of their principal amount (the "ASSET DISPOSITION PURCHASE PRICE") plus accrued but unpaid interest in accordance with the procedures set forth in this Section. If the aggregate purchase price of Notes tendered pursuant to such offer is less than the Net Available Cash allotted to the purchase thereof (the "ASSET DISPOSITION OFFER AMOUNT"), the Company will be permitted to apply the remaining Net Available Cash in accordance with clause (ii)(C) of paragraph (a) above. The Company shall not be required to make such an Asset Disposition Purchase Offer if the Asset Disposition Offer Amount is less than $1,000,000 (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to any subsequent Asset Disposition).

(c) Within 10 days after the expiration of the 180 day period referred to in clause (ii)(B) of paragraph (a) above, if the Company is required to make an Asset Disposition Purchase Offer, the Company shall send, by first class mail, a notice to each of the Holders, with a copy to the Trustee (an "ASSET DISPOSITION PURCHASE NOTICE"), containing all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Asset Disposition Purchase Offer. Each Asset Disposition Purchase Notice, which shall govern the terms of the Asset Disposition Purchase Offer, shall state:

(i) that the Asset Disposition Purchase Offer is being made pursuant to this Section and the length of time the Asset Disposition Purchase Offer shall remain open, as provided below;

(ii) the Asset Disposition Offer Amount, the Asset Disposition Purchase Price and the Asset Disposition Purchase Date (as defined below);

(iii) that any Note not tendered or accepted for payment shall continue to accrue interest;

(iv) that, unless the Company defaults in making such payment, any Note accepted for payment pursuant to the Asset Disposition Purchase Offer shall cease to accrue interest after the Asset Disposition Purchase Date;

(v) that Holders electing to have a Note purchased pursuant to any Asset Disposition Purchase Offer shall be required to surrender the Note, with the form entitled "OPTION OF HOLDER TO ELECT PURCHASE" on the reverse of the Note completed, or transfer by book-entry transfer, to the Company, a Depositary, if appointed by the Company, or a Paying Agent at the address specified in the notice no later than three days before the expiration of the Asset Disposition Offer Period;

(vi) that Holders shall be entitled to withdraw their election if the Company, the Depositary or the Paying Agent, as the case may be, receives, not later than the last Business Day of the

Asset Disposition Offer Period, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Note purchased;

(vii) that, if the aggregate principal amount of Notes surrendered by Holders exceeds the Asset Disposition Offer Amount, the Company shall select the Notes to be purchased on a pro rata basis (with such adjustments as may be deemed appropriate by the Company or the Trustee so that only Notes in denominations of $1,000, or integral multiples thereof, shall be purchased); and

(viii) that Holders whose Notes were purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered (or transferred by book-entry transfer).

(d) The Asset Disposition Purchase Offer will remain open for a period of 20 Business Days following its commencement and no longer, except to the extent that a longer period is required by Applicable Law (the "ASSET DISPOSITION PURCHASE OFFER PERIOD"). No later than five Business Days after the termination of the Asset Disposition Purchase Offer Period (the "ASSET DISPOSITION PURCHASE DATE"), the Company will purchase a principal amount of Notes at least equal to the Asset Disposition Offer Amount or, if less than the Asset Disposition Offer Amount has been tendered, all Notes tendered in response to the Asset Disposition Purchase Offer. Payment of the Asset Disposition Purchase Price and interest accrued thereon for any

Notes so purchased will be made in the same manner as interest payments are made. Upon completion of an Asset Disposition Purchase Offer, the Asset Disposition Offer Amount shall be reset at zero.

(e) If the Asset Disposition Purchase Date is on or after a Regular Record Date and on or before the related Interest Payment Date, any accrued and unpaid interest will be paid to the Person in whose name a Note is registered at the close of business on such Regular Record Date, and no additional interest will be payable to Holders who tender Notes pursuant to the Asset Disposition Purchase Offer.

(f) On or before the Asset Disposition Purchase Date, the Company will deliver to the Trustee an Officers' Certificate stating that the Notes purchased in the Asset Disposition Purchase Offer or portions thereof are accepted for payment by the Company in accordance with the terms of this Section. The Company, the Depositary or the Paying Agent, as the case may be, will promptly (but in any case not later than five days after the Asset Disposition Purchase Date) mail or deliver to each tendering Holder an amount equal to the Asset Disposition Purchase Price of the Notes tendered by such Holder and accepted by the Company for purchase plus (subject to paragraph (e)) interest accrued but unpaid thereon, and the Company will promptly issue a new Note, and the Trustee, upon delivery of a Company Order from the Company, will authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion of any Note surrendered. Any Note not so accepted will be promptly mailed or delivered by the Company to the Holder thereof. The Company will publicly announce the results of the Asset Disposition Purchase Offer on the Asset Disposition Purchase Date.

(g) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this Section. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Section, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Section by virtue thereof.

Section 10.14 Limitation on Transactions with Affiliates.

The Company will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction with or for the benefit of any Affiliate of the Company (including without limitation the making of any loan, advance, Guarantee or capital contribution to or for the benefit of, the purchase, sale, lease or exchange of any property with, the entering

into or amending of employee compensation arrangements with, or the rendering of any service with or for the benefit of, any Affiliate of the Company) (an "AFFILIATE TRANSACTION") unless the terms thereof: (i) are in the ordinary course of business and consistent with past practice; (ii) are fair to the Company or such Restricted Subsidiary and are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not an Affiliate; (iii) if such Affiliate Transaction involves an amount in excess of $500,000, (A) are set forth in writing and (B) have been approved by a majority of the members of the Board of Directors having no personal stake in such

Affiliate Transaction; and (iv) if such Affiliate Transaction involves an amount in excess of $3,000,000, have been determined by a nationally recognized investment banking firm to be fair, from a financial standpoint, to the Company and its Restricted Subsidiaries.

The provisions of the foregoing paragraph shall not apply to (a) transactions exclusively between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries, (b) any Restricted Payment permitted to be made under Section 10.11, (c) any employment or related arrangement entered into by the Company or any Restricted Subsidiary in the ordinary course of business on terms customary in the consumer finance business, provided any such arrangement is approved by the disinterested members of the Board of Directors, (d) customary directors fees and indemnities, and (e) payments required by the Tax Sharing Agreement or any renewal thereof on substantially similar terms, provided, however, in the case of each of the foregoing clauses (a) through (d), that such transactions are not otherwise prohibited by this Indenture, and provided further, that the provisions of clause (iv) of the foregoing paragraph shall not apply to transactions between the Company, Mego Financial and PEC pursuant to the Tax Sharing Agreement and the PEC Agreements and renewals thereof on substantially similar terms.

Section 10.15 Limitations on Liens.

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien of any nature whatsoever on any of its properties (including Capital Stock of a Subsidiary), whether owned at the Issue Date or thereafter acquired, other than Permitted Liens, without effectively providing that the Notes shall be secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

Section 10.16 Limitation on Investment Company Status.

The Company shall not take, and shall not permit any Restricted Subsidiary to take, any action, or otherwise permit to exist any circumstance, that would require the Company or such Restricted Subsidiary to register as an "investment company" under the Investment Company Act of 1940, as amended.

Section 10.17 Line of Business.

The Company will not engage, and will not permit any Subsidiary to engage, in any line of business that is not a Related Business.

Section 10.18 Offer to Purchase upon a Change of Control.

(a) Upon the occurrence of a Change of Control, the Company will offer to repurchase (the "CHANGE OF CONTROL PURCHASE OFFER") all Notes from the Holders, and each Holder will have the right to require that the Company repurchase such Holder's Notes, at a purchase price in cash equal to 101% of the principal amount thereof (the "CHANGE OF CONTROL PURCHASE PRICE") plus accrued and unpaid interest, if any, to the Change of Control Purchase

Date (subject to the right of Holders on the relevant Regular Record Date to

receive interest due on the relevant Interest Payment Date), in accordance with the provisions of this Section.

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder with a copy to the Trustee (a "CHANGE OF CONTROL PURCHASE NOTICE") stating:

(i) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Notes at a Change of Control Purchase Price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Change of Control Purchase Date (subject to the right of Holders on the relevant Regular Record Date to receive interest on the relevant Interest Payment Date);

(ii) the circumstances and relevant facts regarding such Change of Control (including, in the case of any merger, consolidation or sale of all or substantially all assets, information with respect to pro forma results of operations, cash flow and capitalization after giving effect to such Change of Control);

(iii) the date on which the Company will purchase any Notes which Holders require the Company to purchase in accordance with this Section, which date shall be no earlier than 30 days nor later than 60 days from the date such Change of Control Purchase Notice is mailed (the "CHANGE OF CONTROL PURCHASE DATE");

(iv) that, unless the Company defaults in making such payment, any Note accepted for payment pursuant to the Change of Control Purchase Offer shall cease to accrete or accrue interest after the Change of Control Purchase Date;

(v) that Holders electing to have a Note purchased pursuant to any Change of Control Purchase Offer shall be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, or transfer by book-entry transfer, to the Company, a Depositary, if appointed by the Company, or a Paying Agent at the address specified in the notice, at least three Business Days before the Change of Control Purchase Date; and

(vi) that Holders shall be entitled to withdraw their election if the Company, the Depositary or the Paying Agent, as the case may be, receives, not later than the last Business Day prior to the Change of Control Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Note purchased.

(c) Holders electing to have a Note purchased will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" duly completed, to the Company at the address specified in the notice at least three Business Days prior to the Change of Control Purchase Date. Holders will be entitled to withdraw their election if the Trustee or the

Company receives not later than one Business Day prior to the Change of Control Purchase Date, a telegram, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note which was delivered by the Holder for purchase by the Company and a statement that such Holder is withdrawing his election to have such Note purchased.

(d) On the Change of Control Purchase Date, all Notes purchased by the Company in a Change of Control Purchase Offer shall be delivered by the Trustee for cancellation, and the Company shall pay the Change of Control Purchase Price plus accrued and unpaid interest, if any, to the Holders entitled thereto.

(e) On or before the Change of Control Purchase Date, the Company will deliver to the Trustee an Officers' Certificate stating that the Notes purchased in the Change of Control Purchase Offer are accepted for payment by the Company in accordance with the terms of this Section. The Company, the

Depositary or the Paying Agent, as the case may be, will promptly (but in any case not later than five days after the Change of Control Purchase Date) mail or deliver to each tendering Holder an amount equal to the Change of Control Purchase Price of the Notes tendered by such Holder plus interest accrued but unpaid thereon (subject to the right of Holders on the relevant Regular Record Date to receive interest due on the relevant Interest Payment Date). The Company will publicly announce the results of the Change of Control Purchase Offer on the Change of Control Purchase Date.

(f) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this Section. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Section, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Section by virtue thereof.

Section 10.19 Payments for Consent.

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders that provide such consent or so waive or agree to amend in the time frams set forth in the solicitation documents relating to such consent, waiver or agreement.

Section 10.20 Subsidiary Guaranties, Designation of Subsidiaries as Restricted or Unrestricted.

(a) The Company shall cause each future Subsidiary (other than Special Purpose Subsidiaries) to execute and deliver to the Trustee a Joinder of Subsidiary Guarantor promptly upon acquisition or formation thereof, unless such Subsidiary is designated an "Unrestricted Subsidiary" in accordance with the terms of this Section. The Company shall cause each Unrestricted Subsidiary from time to time redesignated a Restricted Subsidiary (other than a Special Purpose Subsidiary) to execute and deliver to the Trustee aJoinder of Subsidiary

Guarantor concurrently with the delivery of the documents required to be delivered by Section 10.20(e).

(b) Subject to the provisions of this Section, (i) promptly upon acquisition or formation of any Subsidiary by the Company or any Restricted Subsidiary after the date hereof, the Board of Directors shall designate or cause to be designated such Subsidiary as either a Restricted Subsidiary or an Unrestricted Subsidiary, and (ii) the Board of Directors may redesignate a Restricted Subsidiary to be an Unrestricted Subsidiary or an Unrestricted Subsidiary to be a Restricted Subsidiary. All Subsidiaries of Unrestricted Subsidiaries automatically shall be designated as Unrestricted Subsidiaries.

(c) Any Subsidiary may be designated an Unrestricted Subsidiary unless (i) such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated or (ii) any such Subsidiary has outstanding any Indebtedness other than Non-Recourse Debt; provided, however, that such designation would be a permitted Restricted Investment under Section 10.11. Any Subsidiary that ceases to satisfy the conditions set forth in clauses (i) and (ii) of this Section 10.20(c) shall promptly be designated a "Restricted Subsidiary" and any Indebtedness of such Subsidiary shall be deemed to be Incurred by such Subsidiary as of such date.

(d) Any Subsidiary may be designated a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation (x) the Company could Incur $1.00 of additional Indebtedness under Section 10.9(a) and (y) no Default or Event of Default shall have occurred and be continuing or would result therefrom (deeming all Indebtedness of such Subsidiary outstanding at the time of such designation to be Incurred at such time).

(e) Any designation of a Subsidiary as a Restricted Subsidiary or Unrestricted Subsidiary by the Board of Directors shall be evidenced by the

Company promptly filing with the Trustee a Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions and containing the statements required by Section 1.2. In the case of the designation of a Subsidiary as a Restricted Subsidiary, the Company shall further provide the Trustee with an Opinion of Counsel to the effect that:

(i) Such Subsidiary has been duly incorporated or organized and is validly existing as a corporation, partnership or other entity in good standing under the laws of the jurisdiction in which it is chartered or organized. Such Subsidiary is duly qualified and in good standing as a foreign corporation, partnership or other entity in each jurisdiction in which the character or location of its assets or properties (owned, leased or licensed) or the nature of its business makes such qualification necessary, except for such jurisdictions where the failure to so qualify would not have a material adverse effect on the assets or properties, business, results of operations or financial condition of the Company and its Subsidiaries taken as a whole. Such Subsidiary has all requisite corporate, partnership or other power and authority, and all necessary authorizations, approvals, consents, orders, licenses, certificates and permits (collectively, "PERMITS") of and from all

governmental or regulatory bodies or any other person or entity, including any and all licenses, permits and approvals required under any Applicable Law, to (i) own, lease and license its assets and properties and conduct its businesses as now being conducted and as proposed to be conducted, (ii) to enter into, deliver and perform its obligations under the applicable Joinder of Subsidiary Guarantor and the Indenture. Such Subsidiary has fulfilled and performed in all material respects all of its obligations with respect to such Permits, and such Subsidiary is not in material violation of any term or provision of any such Permits, nor has any event occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or which could result in any material impairment of the rights of such Subsidiary. No such Permit contains a materially burdensome restriction which has or would have a material adverse effect on the assets or properties, business, results of operations or financial condition of such Subsidiary.

(ii) Neither the execution, delivery and performance of its obligations under the applicable Joinder of Subsidiary Guarantor, or this Indenture by such Subsidiary nor the consummation of any of the transactions contemplated hereby or thereby will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or any Subsidiary pursuant to the terms of, any indenture, mortgage, deed of trust or other material agreement or instrument (identified as such by a Senior Officer) to which the Company or any Subsidiary is a party or by which it or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to such Subsidiary or violate any provision of the charter, by-laws, partnership agreement or other organizational document of such Subsidiary, except for such consents or waivers which have already been obtained and are in full force and effect, or require any authorization, consent, order, license, certificate or Permit of or from any governmental or regulatory body under any Federal, state or local law except for those which have been obtained.

(iii) All necessary corporate, partnership or other action has been duly and validly taken by such Subsidiary to authorize the execution, delivery and performance of the applicable Joinder of Subsidiary Guarantor and this Indenture.

(iv) The applicable Joinder of Subsidiary Guarantor constitutes the legal, valid and binding obligation of such Subsidiary, enforceable against such Subsidiary in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting

the enforcement of creditors' rights generally and by general equitable principles. The Indenture constitutes the legal, valid and binding obligation of such Subsidiary to the extent it is, becomes or is deemed a party thereto, enforceable against such Subsidiary in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

ARTICLE ELEVEN

MERGER, CONSOLIDATION AND TRANSFER OF ASSETS

Section 11.1 Merger, Consolidation or Transfer of Assets of the Company.

(a) The Company shall not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all its assets to, any Person, unless: (i) the resulting, surviving or transferee Person (the "SUCCESSOR COMPANY") shall be a Person organized and existing under the laws of the United States of America or any state thereof and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all of the Company's obligations under the Notes and this Indenture; (ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Restricted Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Restricted Subsidiary at the time of such transaction), no Default shall have occurred and be continuing; (iii) immediately after giving effect to such transaction, the Successor Company would be able to incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of Section 10.9; (iv) immediately after giving effect to such transaction, the Successor Company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of the Company prior to such transaction; and (v) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture.

(b) The Successor Company shall be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, but the predecessor Company, in the case of a lease, shall not be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

Section 11.2 Merger, Consolidation or Transfer of Assets of Restricted Subsidiaries.

(a) No Restricted Subsidiary may consolidate with or merge with or into (whether or not such Restricted Subsidiary is the surviving Person) another Person, whether or not affiliated with such Restricted Subsidiary, unless (i) subject to the provisions of the following paragraph, the Person formed by or surviving any such consolidation or merger (if other than such Restricted Subsidiary) assumes all the obligations of such Restricted Subsidiary, pursuant to a supplemental indenture, in form and substance satisfactory to the Trustee, under this Indenture; (ii) immediately after giving effect to such transaction, no Default or Event of Default exists; (iii) such Restricted Subsidiary, or any Person formed by or surviving any such consolidation or merger, would have Consolidated Net Worth (immediately after giving effect to such transaction) equal to or greater than the Consolidated Net Worth of such Restricted Subsidiary immediately preceding the transaction; and (iv) the Restricted Subsidiary would be permitted, immediately after giving effect to such transaction, to Incur at least $1.00 of additional Indebtedness pursuant

to paragraph (a) of Section 10.9; provided that the foregoing provisions will not restrict the ability of a Subsidiary to consolidate or merge with the Company or a Wholly Owned Restricted Subsidiary.

(b) In the event of a sale or other disposition of all of the assets of any Subsidiary (other than to or with the Company or a Wholly Owned Restricted Subsidiary), by way of merger, consolidation or otherwise, or a sale or other disposition of all of the Capital Stock of any Subsidiary (other than to the Company or a Wholly Owned Restricted Subsidiary), such Restricted Subsidiary (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all of the Capital Stock of such Subsidiary) or the corporation acquiring the property (in the event of a sale or other disposition of all of the assets of such Restricted Subsidiary) will be released and relieved of any obligations under its Subsidiary Guarantee; provided that the Net Cash Proceeds of such sale or other disposition are applied in accordance with Section 10.13.

Section 11.3 Change of Control.

The provisions of this Article shall not impair the Holders' rights under Section 10.18 following a Change of Control.

ARTICLE TWELVE

SUBORDINATION

Section 12.1 Notes and Subsidiary Guarantees Subordinate to Senior Indebtedness.

(a) The Company and each Subsidiary Guarantor covenants and agrees, and each Holder of a Note and each Beneficiary of any Subsidiary Guarantee, by his acceptance thereof, likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article, the Indebtedness represented by the Notes and the Subsidiary Guarantees and the payment of the principal of and premium (if any) and interest on each and all of the Notes, together with any payment pursuant to any Subsidiary Guarantees, are hereby expressly made subordinate and subject in right of payment to the prior payment in full of existing and future Senior Indebtedness of the Company and the Subsidiary Guarantors, respectively, including without limitation all obligations of the Company or any Subsidiary Guarantor under any Warehouse Facility, and will be senior in right of payment to Junior Subordinated Obligations. If any Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of the Bankruptcy Code or any applicable state fraudulent conveyance law, such Indebtedness nevertheless will constitute Senior Indebtedness for purposes of this Indenture. For purposes of this Article, (i) a "PAYMENT" includes any payment with respect to principal of, premium, if any, or interest on, the Notes, including any payment under any Subsidiary Guarantee, any deposit pursuant to Article Fourteen, and any repurchase, redemption, defeasance or other retirement of any Notes, and (ii) "PRINCIPAL", if used with respect to the Notes, shall include, without limitation, the principal portion of the Redemption Price and Purchase Price of Notes.

(b) Notwithstanding anything in this Article to the contrary, nothing herein shall apply to any payments made out of the assets of any trust referred to in paragraph (a) of Section 14.4.

Section 12.2 Payment Over of Proceeds upon Dissolution, Etc.

(a) Upon any payment or distribution of the assets of the Company to creditors upon a total or partial liquidation or total or partial dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property (whether voluntary or involuntary), (i) the holders of Senior Indebtedness of the Company shall be entitled to receive payment in full before the holders of the Notes are entitled to receive any payment, and (ii) until the Senior Indebtedness of the Company is paid in full, any payment to which the Holders of the Notes would be entitled but for this Section will be made to holders of Senior Indebtedness as their interests may appear, except that Holders may receive shares of stock or Indebtedness of the Company that is subordinated to Senior Indebtedness of the Company to at least the same extent as the Notes.

(b) Upon any payment or distribution of the assets of any Subsidiary Guarantor to creditors upon a total or partial liquidation or total or partial dissolution of the Subsidiary Guarantor or in a bankruptcy,

reorganization, insolvency, receivership or similar proceeding relating to the Subsidiary Guarantor or its property (whether voluntary or involuntary), (i) the holders of Senior Indebtedness of such Subsidiary Guarantor shall be entitled to receive payment in full before the holders of the Notes are entitled to receive any payment, and (ii) until the Senior Indebtedness of such Subsidiary Guarantor is paid in full, any payment to which the Holders of the Notes would be entitled but for this provision will be made to holders of Senior Indebtedness of such Subsidiary Guarantor as their interests may appear, except that Holders may receive shares of stock or Indebtedness that is subordinated to Senior Indebtedness of the Subsidiary Guarantor to at least the same extent as the Subsidiary Guarantees.

(c) In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or the Holder of any Note or the Beneficiary of any Subsidiary Guarantee shall have received any payment or distribution of any kind or character, whether in cash, securities or other property, before all Senior Indebtedness is paid in full, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other official for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

Section 12.3 No Payment When Senior Indebtedness In Default.

(a) Note Payments. The Company may not make any payment with respect to the Notes if (i) any Senior Indebtedness of the Company is not paid when due or (ii) any other default on any such Senior Indebtedness occurs and the maturity thereof has been accelerated in accordance with its terms, unless, in either case, (x) the default has been cured or waived and any such acceleration has been rescinded or (y) such Senior Indebtedness has been paid in full.

During the continuance of any default (other than a default described in clause (i) or (ii) of the preceding sentence) with respect to any Designated Senior Indebtedness of the Company pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, the Company may not make a payment with respect to the Notes for a period (a "PAYMENT BLOCKAGE PERIOD") commencing upon the receipt by the Company and the Trustee of written notice of such default from the Representative of any Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period (a "BLOCKAGE NOTICE") and ending 179 days thereafter (or earlier if such Payment Blockage Period is terminated (i) by written notice to the Trustee and the Company from the Person or Persons who gave such Blockage Notice, (ii) by repayment in full of such Designated Senior Indebtedness or (iii) because the default giving rise to such Blockage Notice is no longer continuing). Notwithstanding the provisions described in the immediately preceding sentence (but subject to the provisions of the first sentence of this subsection), unless the holders of such Designated Senior Indebtedness or the Representative of such holders shall have accelerated the maturity of such Designated Senior Indebtedness, the Company may resume payments on the Notes after such Payment Blockage Period.

Not more than one Blockage Notice may be given in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness during such period.

(b) Subsidiary Guarantee Payments. No Subsidiary Guarantor may make any payment under its Subsidiary Guarantee if (i) any Senior Indebtedness of any Subsidiary Guarantor is not paid when due or (ii) any other default on any such Senior Indebtedness occurs and the maturity thereof has been accelerated in accordance with its terms, unless, in either case, (x) the default has been cured or waived and any such acceleration has been rescinded or (y) such Senior Indebtedness has been paid in full. During the continuance of any default (other than a default described in clause (i) or (ii) of the preceding sentence) with respect to any Designated Senior Indebtedness of any Subsidiary Guarantor pursuant to which the maturity thereof may be accelerated immediately without further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods, such Subsidiary Guarantor may not make any payment with respect to the Notes for a period (a "SUBSIDIARY GUARANTOR PAYMENT BLOCKAGE PERIOD") commencing upon the

receipt by the Subsidiary Guarantor and the Trustee of written notice of such default from the Representative of any Designated Senior Indebtedness of such Subsidiary Guarantor specifying an election to effect a Subsidiary Guarantor Payment Blockage Period (a "SUBSIDIARY GUARANTOR PAYMENT BLOCKAGE NOTICE") and ending 179 days thereafter (or earlier if such Subsidiary Guarantor Payment Blockage Period is terminated (i) by written notice to the Trustee and the Subsidiary Guarantors from the Person or Persons who gave such Subsidiary Guarantor Payment Blockage Notice, (ii) by repayment in full of such Designated Senior Indebtedness of such Subsidiary Guarantor or (iii) because the default giving rise to such Subsidiary Guarantor Payment Blockage Notice is no longer continuing). Notwithstanding the provisions described in the immediately preceding sentence (but subject to the provisions contained in the first sentence of this subsection), unless the holders of such Senior Indebtedness of such Subsidiary Guarantor or the Representative of such holders shall have accelerated the maturity of such Designated Senior Indebtedness of such Subsidiary Guarantor,

such Subsidiary Guarantor may resume payments under its Subsidiary Guarantee after such Subsidiary Guarantor Payment Blockage Period.

Not more than one Subsidiary Guarantor Payment Blockage Notice may be given with respect to the Subsidiary Guarantors in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Indebtedness of the Subsidiary Guarantors during such period.

(c) Application. The provisions of this Section shall not apply to any payment with respect to which Section 12.2 would be applicable.

Section 12.4 Payment Permitted if No Default.

Nothing contained in this Article or elsewhere in this Indenture or in any of the Notes or Subsidiary Guarantees shall prevent (a) the Company or any Subsidiary Guarantor, at any time except during the pending of any liquidation, dissolution or proceeding referred to in Section 12.2 or under the conditions described in Section 12.3, from making payments at any time of principal of (or premium, if any) or interest on the Notes or payments pursuant to any Subsidiary Guarantees, or (b) the application by the Trustee of any money deposited with it hereunder to the payment of or on account of the principal (and premium, if any) or interest on the Notes or payment pursuant to any Subsidiary Guarantee or the retention of such payment by the Holders, if, at the time of such application by the Trustee, it did not have knowledge that such payment would have been prohibited by the provisions of this Article.

Section 12.5 Subrogation to Rights of Holders and Beneficiaries of Senior Indebtedness.

Subject to the payment in full of all Senior Indebtedness, the Holders of the Notes and the Beneficiaries of any Subsidiary Guarantee shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Indebtedness pursuant to the provisions of this Article to the rights of the holders of such Senior Indebtedness to receive payments and distributions of cash, property and securities applicable to the Senior Indebtedness until the principal of (and premium, if any) and interest on the Notes and any other Obligations shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Indebtedness of any cash, property or securities to which the Holders of the Notes, the Trustee or any Beneficiaries would be entitled except for the provisions of this Article shall, as among the Company (together with any Subsidiary Guarantors), its creditors other than the holders of Senior Indebtedness, the Holders of the Notes and the Beneficiaries of any Subsidiary Guarantees, be deemed to be payment or distribution by the Company to or on account of the Senior Indebtedness.

Section 12.6 Provisions Solely to Define Relative Rights.

The provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Notes, the Beneficiaries of any Subsidiary Guarantees and the holders of the Senior Indebtedness. Nothing contained in this Article or

elsewhere in this Indenture or in the Notes is intended to or shall (a) impair, as among the Company, its creditors other than holders of Senior Indebtedness, the Holders of the Notes and the Beneficiaries of any Subsidiary Guarantees, the obligations of the Company or any other Obligor, which are absolute and unconditional, to pay to the Holders of the Notes the principal of (and premium, if any) and interest on the Notes as and when the same shall become due and payable in accordance with their terms or to make any payments pursuant to any Subsidiary Guarantees; or (b) affect the relative rights against the Company or any other Obligor of the Holders of the Notes, Beneficiaries of any Subsidiary Guarantee, and creditors of the Company other than the holders of Senior Indebtedness; or (c) prevent the Trustee, the Holder of any Note or any Beneficiary of any Subsidiary Guarantee from exercising all remedies otherwise permitted by applicable law upon an Event of Default, subject to the rights, if any, under this Article of the holders of the Senior Indebtedness to receive cash, property and securities otherwise payable or deliverable to the Trustee, such Holder or such Beneficiary.

Section 12.7 Trustee to Effectuate Subordination.

Each Holder of a Note and each Beneficiary by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes.

Section 12.8 No Waiver of Subordination Provisions.

No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or other Obligor or by any act or failure to act, in good faith, by any such holder, or by any non-compliance by the Company or other Obligor with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee, the Holders of the Notes or any Beneficiary of any Subsidiary Guarantee, without incurring responsibility to the Holders of the Notes and any Beneficiaries and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the Holders of the Notes and any Beneficiaries to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place, amount or terms of payment or extend the time of payment of, or renew or alter, Senior Indebtedness, or otherwise amend or supplement in any manner Senior Indebtedness or any instrument evidencing the same or any agreement under which Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Indebtedness; (iii) release any Person liable in any manner for the collection of Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

Section 12.9 Notice to Trustee.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Notes or any Subsidiary Guarantees pursuant to this Article. Notwithstanding the provisions of this Article or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Notes or any Subsidiary Guarantees, unless and until the Trustee shall have received written notice thereof from the Company or a holder of Senior Indebtedness or from any Representative thereof; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Article Six, shall be entitled in all respects to assume that no

such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section at least three Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal (and premium, if any) or interest on any Note), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within three Business Days prior to such date.

Subject to the provisions of Article Six, the Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a Representative of Senior Indebtedness to establish that such notice has been given by a holder of Senior Indebtedness (or a trustee therefor or other representative thereof). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment or distribution.

Section 12.10 Reliance on Judicial Order or Certificate of Liquidating Agent.

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Article Six, and the Holders of the Notes shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver or other Person making such payment or distribution, delivered to the Trustee or to the Holders of Notes, for the purpose of ascertaining the Person entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

Section 12.11 Trustee Not Fiduciary for Holders of Senior Indebtedness.

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and shall not be liable to any such holders if it shall in good faith mistakenly pay over or distribute to Holders of Notes or to the Company or to any other Person cash, property or securities to which any holders of Senior Indebtedness shall be entitled by virtue of this Article or otherwise.

Section 12.12 Rights of Trustee as Holder of Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article with respect to any Senior Indebtedness which may at any time be held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article shall apply to claims of, or payments to, the Trustee pursuant to Section 6.7.

Section 12.13 Article Applicable to Paying Agents.

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "TRUSTEE" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of Trustee; provided,

however, that Section 12.12 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

ARTICLE THIRTEEN

REDEMPTION OF NOTES

Section 13.1 Applicability of Article.

Any redemption of Notes before their Stated Maturity shall be in accordance with their terms and in accordance with this Article.

Section 13.2 Optional Redemption.

The Notes will not be redeemable prior to _____, _____, except as provided on the reverse of the Form of Note set forth in Section 2.3.

Section 13.3 Election to Redeem; Selection by Trustee of Notes to Be Redeemed.

Any election to redeem Notes shall be evidenced by a Board Resolution.

If less than all the Notes are to be redeemed, the particular Notes to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Notes not previously called for redemption, on a pro rata basis, by lot or by such method as the Trustee in its sole discretion shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Notes or any integral multiple thereof) of the principal amount of Notes of a denomination larger than the minimum authorized denomination for Notes.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Notes shall relate, in the case of any Notes redeemed or to be redeemed only in part, to the portion of the principal amount of such Notes which has been or is to be redeemed.

Section 13.4 Notice of Redemption.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed, at his address appearing in the Note Register.

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price and accrued interest, if any,

(3) if less than all the Outstanding Notes are to be redeemed, the identification (and, in the case of partial redemption of any Notes, the principal amounts) of the particular Notes to be redeemed,

(4) that on the Redemption Date the Redemption Price and accrued but unpaid interest, if any, will become due and payable upon each such Note to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(5) the place or places where such Notes are to be surrendered for payment of the Redemption Price and accrued interest, if any, and

(6) the CUSIP numbers, if any, of the Notes to be redeemed.

Notice of redemption of Notes to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

Section 13.5 Deposit of Redemption Price.

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.3) an amount of money in immediately available funds sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued but unpaid interest on, all the Notes which are to be redeemed on that date.

Section 13.6 Notes Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Notes shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with said notice, such Note shall be paid by the Company at the Redemption Price, together with accrued but unpaid interest to the Redemption Date; provided, however, that, installments of interest whose stated maturity is on or prior to the Redemption Date shall be payable to the Holders of such Notes, or one or more Predecessor Notes, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.8.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Note.

Section 13.7 Notes Redeemed in Part.

Any Note which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Note without service charge, a new Note or Notes of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

ARTICLE FOURTEEN

DEFEASANCE AND COVENANT DEFEASANCE

Section 14.1 Option to Effect Legal Defeasance or Covenant Defeasance.

The Company may, at the option of its Board of Directors evidenced by a Board Resolution, at any time, elect to have either Section 14.2 or 14.3 be applied to all Outstanding Notes upon compliance with the conditions set forth below in this Article.

Section 14.2 Legal Defeasance and Discharge.

Upon the Company's exercise under Section 14.1 of the option applicable to this Section, the Company shall, subject to the satisfaction of the conditions set forth in Section 14.4, be deemed to have been discharged from its obligations with respect to all Outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, LEGAL DEFEASANCE). For this purpose, Legal Defeasance means that the Company and the Subsidiary Guarantors shall be

deemed to have paid and discharged the entire Indebtedness represented by the Outstanding Notes and the Subsidiary Guarantees, which shall thereafter be deemed to be OUTSTANDING only for the purposes of Section 14.5 and the other Sections of this Indenture referred to in (a) and (b) below, and the Company and the Subsidiary Guarantors shall be deemed to have satisfied all their other obligations under the Notes and this Indenture (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of Outstanding Notes to receive solely from the trust fund described in Section 14.4, and as more fully set forth in such Section, payments in respect of the principal of, premium, if any, and interest on such Notes as and when such payments are due, (b) the Company's and Subsidiary Guarantors' obligations with respect to such Notes under Articles One, Two, Three and Four and Section 10.3, (c) the rights, powers, trusts, duties and immunities of the Trustee hereunder and the Company's obligations in connection therewith and (d) this Article. Subject to compliance with this Article, the Company may exercise its option under this Section notwithstanding the prior exercise of its option under Section 14.3.

Section 14.3 Covenant Defeasance.

Upon the Company's exercise under Section 14.1 of the option applicable to this Section, the Company and the Subsidiary Guarantors shall, subject to the satisfaction of the conditions set forth in Section 14.4, be released from its obligations under the covenants contained in Article Ten (except Sections 10.1, 10.2, 10.5 and 10.7) [and under the provisions of Sections 11.1(a) and 11.2(a)] with respect to the Outstanding Notes on and after the date the conditions set forth below are satisfied (hereinafter, COVENANT DEFEASANCE), and the Notes shall thereafter be deemed not Outstanding for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed Outstanding for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this

purpose, Covenant Defeasance means that, with respect to the Outstanding Notes and the Subsidiary Guarantees, the Company and the Subsidiary Guarantors may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.1, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby. In addition, upon any such Covenant Defeasance, the events specified in paragraphs (f), (g) (with respect to Subsidiaries only) (h) and (i) shall not constitute Defaults.

Section 14.4 Conditions to Legal or Covenant Defeasance.

The following shall be the conditions precedent to the effectiveness of any Legal Defeasance or Covenant Defeasance:

(a) the Company shall (i) irrevocably deposit with the Trustee, in trust, for the benefit of the Holders, unencumbered cash in United States dollars, unencumbered U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in a written opinion of a nationally recognized firm of independent public accountants delivered to the Trustee, to pay the principal of, premium, if any, and interest on the outstanding Notes on the stated date for payment thereof or on the applicable Redemption Date, as the case may be, and the Company must specify whether the Notes are being defeased to maturity or to a particular Redemption Date, and (ii) irrevocably instruct the Trustee to apply such cash and U.S. Government Obligations to such payments with respect to the Notes;

(b) in the case of an election under Section 14.2, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Company has received from, or there has been published by, the Internal

Revenue Service a ruling or (B) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the Outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of an election under Section 14.3 hereof, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the Outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance has not occurred;

(d) no Default or Event of Default shall have occurred and be continuing on (i) the date of such deposit (other than a Default or Event of Default resulting from the Incurrence of Indebtedness all or a portion of the proceeds of which will be used to defease the Notes pursuant to this Article concurrently with such Incurrence) and (ii) insofar as Section 5.1(g) hereof is concerned, at any time during the period ending on the 91st day after the date of deposit (such condition not being satisfied until such 91st day) ;

(e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(f) the Obligors shall have delivered to the Trustee an Opinion of Counsel to the effect that on the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally;

(g) the Obligors shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Obligors or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Obligors; and

(h) the Obligors shall have delivered to the Trustee Officers' Certificates and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Section 14.5 Deposited Money and U.S. Government Obligations To Be Held in Trust; Other Miscellaneous Provisions.

Subject to Section 14.6, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section, the TRUSTEE) pursuant to Section 14.4 in respect of the Outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent (excluding any Obligor acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or U.S. Government Obligations deposited pursuant to Section 14.4 or the principal and interest received in respect thereof.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon the request of the Company any money or U.S. Government Obligations held by it as provided in Section 14.4 which, in the opinion of a

nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 14.4), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Section 14.6 Repayment to Company.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest on any Note and remaining unclaimed for two years after such principal, and premium, if any, or interest has become due and payable shall be paid to the Company on its request or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as a creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in The New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 14.7 Reinstatement.

If the Trustee or Paying Agent is unable to apply any United States Dollars or U.S. Government Obligations in accordance with Section 14.2 or 14.3, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Obligors' obligations under this Indenture, the Notes and the Subsidiary Guarantees shall be revived and reinstated as though no deposit had occurred pursuant to Section 14.2 or 14.3 until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 14.2 or 14.3, as the case may be; provided, however, that, if the Company makes any payment of principal of, premium, if any, or interest on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE FIFTEEN

MISCELLANEOUS

Section 15.1. No Recourse Against Others.

A director, officer, employee, stockholder or incorporator, as such, of any Obligor shall not have any liability for any obligations of such Obligor under the Notes, the Subsidiary Guarantees or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability.

Section 15.2. Execution in Counterparts.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 15.3. Waiver of Trial by Jury.

EACH OF THE PARTIES TO THIS INDENTURE WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION UNDER THIS INDENTURE, THE NOTES OR ANY SUBSIDIARY GUARANTEE OR ANY ACTION ARISING OUT OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, REGARDLESS OF WHICH PARTY INITIATES SUCH ACTION OR ACTIONS.

.* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

MEGO MORTGAGE CORPORATION

By:

Name:

Title:

Attest:

By:

Title:

AMERICAN STOCK TRANSFER & TRUST COMPANY, as Trustee

By:

Name:
Title:

Attest:

By:

Title:

STATE OF [_____])
) ss.:
COUNTY OF [_____])

On the _____ day of _____, 1996 before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he is _____ of Mego Mortgage Corporation, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

Notary Public

STATE OF [_____])
) ss.:
COUNTY OF [_____])

On the ____ day of _____ 1996 before me personally came _____ to me known, who, being by me duly sworn, did depose and say that he is an [_____] of American Stock Transfer & Trust Company, one of the corporations described in and which executed the foregoing instrument, that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

Notary Public

SCHEDULE 10.12

LIENS EXISTING ON ISSUE DATE

[?]

EXHIBIT A

FORM OF SUBSIDIARY GUARANTEE

The Subsidiary Guarantors listed below (hereinafter referred to as "SUBSIDIARY GUARANTORS," which term includes any successor or assign under the Indenture dated as of _____, 1996 by and among Mego Mortgage Corporation (the COMPANY), any Person that may from time to time become a party thereto as a Subsidiary Guarantor by executing and delivering to the Trustee an Joinder of Subsidiary Guarantor (as defined therein), and American Stock Transfer & Trust Company, a _____, as Trustee (the INDENTURE)), have irrevocably, unconditionally and jointly and severally guaranteed (i) the due and punctual payment of the principal of, premium, if any, and interest on the Company's ___% Senior Subordinated Notes due 2001 in an aggregate principal amount of $40,000,000 (the NOTES), the due and punctual payment of interest on the overdue principal and interest, if any, of the Notes and the due and punctual performance of all other Obligations of the Company to the Holders of Notes or the Trustee, all subject to the terms and limitations set forth in ARTICLE EIGHT of the Indenture, (ii) in case of any extension of time of payment or renewal of any Notes or any such other Obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise, and (iii) the payment of any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Subsidiary Guarantee.

The obligations of each Subsidiary Guarantor to the Holders and to the Trustee pursuant to this Subsidiary Guarantee and the Indenture are expressly set forth in ARTICLE EIGHT of the Indenture and reference is hereby made to such Indenture for the precise terms of this Subsidiary Guarantee.

No director, officer, employee, stockholder or incorporator, as such, past, present or future, of any Subsidiary Guarantor shall have any liability under this Subsidiary Guarantee by reason of his, her or its status as such director, officer, employee, stockholder or incorporator.

This is a continuing guarantee and, except as otherwise

provided in Section 10.20 of the Indenture, shall remain in full force and effect and shall be binding upon each Subsidiary Guarantor and its successors and assigns until full and final payment of all of the Company's Obligations and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof. This is a guarantee of payment and not of collectability.

This Subsidiary Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Note upon which this Subsidiary Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of an authorized officer.

EXHIBIT A
to Subsidiary Guarantee
1

THE TERMS OF ARTICLE EIGHT OF THE INDENTURE ARE INCORPORATED HEREIN BY REFERENCE.

Capitalized terms used herein have the same meanings given in the Indenture unless otherwise indicated.

Subsidiary Guarantors:

By:

Name:

Title:

EXHIBIT A
to Subsidiary Guarantee
2

EXHIBIT B

FORM OF JOINDER OF SUBSIDIARY GUARANTOR

Pursuant to Section 8.1 of the Indenture dated as of _____ ___, 1996 between Mego Mortgage Corporation (the COMPANY), any Person that may from time to time become a party thereto as a Subsidiary Guarantor by executing and delivering to the Trustee aJoinder of Subsidiary Guarantor (as defined therein), and American Stock Transfer & Trust Company, a [national banking association], as Trustee (the INDENTURE), the undersigned hereby agrees, represents and acknowledges that it is a Subsidiary Guarantor under the Indenture for all purposes, and jointly and severally with all other Subsidiary Guarantors under the Indenture as may exist from time to time, as if it had been a signatory to the Indenture.

The undersigned hereby irrevocably and unconditionally guarantees (i) the due and punctual payment of the principal of, premium, if any, and interest, on the Company's ......% Senior Subordinated Notes due 2001 in an aggregate principal amount of $40,000,000 (the "NOTES"), whether at stated maturity, by acceleration or otherwise, the due and punctual payment of interest

on the overdue principal and interest, if any, of the Notes and the due and punctual performance of all other Obligations of the Company to the Holders of Notes or the Trustee, all subject to the terms and limitations set forth in ARTICLE EIGHT of the Indenture, (ii) in case of any extension of time of payment or renewal of any Notes or any such other Obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise, and (iii) the payment of any and all costs and expenses (including reasonable attorneys' fees) incurred by the Trustee or any Holder in enforcing any rights under this Joinder of Subsidiary Guarantor.

The obligations of the undersigned Subsidiary Guarantor to the Holders and to the Trustee pursuant to this Joinder of Subsidiary Guarantor and the Indenture are expressly set forth in ARTICLE EIGHT of the Indenture and reference is hereby made to such Indenture for the precise terms of this Joinder of ubsidiary Guarantor.

No director, officer, employee, stockholder or incorporator, as such, past, present or future, of the undersigned Subsidiary Guarantor shall have any liability under this Joinder of Subsidiary Guarantor by reason of his or its status as such director, officer, employee, stockholder or incorporator.

This is a continuing guarantee and, except as otherwise provided in Section 10.20 of the Indenture, shall remain in full force and effect and shall be binding upon the undersigned Subsidiary Guarantor and its successors and assigns until full and final payment of all of the Company's Obligations and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof. This is a guarantee of payment and not of collectibility.

EXHIBIT B
to Subsidiary Guarantor
1

THE TERMS OF ARTICLE EIGHT OF THE INDENTURE ARE INCORPORATED HEREIN BY REFERENCE.

The undersigned Subsidiary Guarantor hereby represents and warrants as follows:

(i) The undersigned has been duly incorporated or organized and is validly existing as a corporation, partnership or other entity in good standing under the laws of the jurisdiction in which it is chartered or organized. The undersigned is duly qualified and in good standing as a foreign corporation, partnership or other entity in each jurisdiction in which the character or location of its assets or properties (owned, leased or licensed) or the nature of its business makes such qualification necessary, except for such jurisdictions where the failure to so qualify would not have a material adverse effect on the assets or properties, business, results of operations or financial condition of the Company and its Subsidiaries taken as a whole. The undersigned has all requisite corporate, partnership or other power and authority, and all necessary authorizations, approvals, consents, orders, licenses, certificates and permits (collectively, PERMITS) of and from all governmental or regulatory bodies or any other person or entity, to (i) own, lease and license its assets and properties and conduct its businesses as now being conducted and as proposed to be conducted, (ii) to enter into, deliver and perform its obligations under this Joinder of Subsidiary Guarantor and the Indenture to the extent it is, becomes or is deemed a party thereto. The undersigned has fulfilled and performed in all material respects all of its obligations with respect to such Permits, and the undersigned is not in material violation of any term or provision of any such Permits, nor has any event occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or which could result in any material impairment of the rights of the undersigned. No such Permit contains a materially burdensome restriction.

(ii) Neither the execution, delivery and performance of its obligations under this Joinder of Subsidiary Guarantor, or the Indenture to the extent the undersigned is, becomes or is deemed to be a party thereto, by the undersigned nor the consummation of any of the transactions contemplated hereby or thereby will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or any Subsidiary pursuant to the terms of, any indenture, mortgage, deed of trust or other material agreement or instrument to which the Company or any Subsidiary is a party or by which it or any of its properties or businesses is bound, or any franchise, license, Permit, judgment, decree, order, statute, rule or regulation applicable to the undersigned or violate any provision of the charter, by-laws, partnership agreement or other organizational document of the undersigned, except for such consents or waivers which have already been obtained and are in full force and effect, or require any authorization, consent, order, license, certificate or Permit of or from any governmental or regulatory body under any Federal, state or local law except for those which have been obtained.

EXHIBIT B
to Subsidiary Guarantor
2

(iii) All necessary corporate, partnership or other action has been duly and validly taken by the undersigned to authorize the execution, delivery and performance of this Joinder of Subsidiary Guarantor, the Indenture and each other relevant document to which it is, will become or is or will be deemed a party in connection with the Indenture.

(iv) This Joinder of Subsidiary Guarantor constitutes the legal, valid and binding obligation of the undersigned, enforceable against the undersigned in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles. Each of the Indenture does, and each of the other relevant documents will, constitute the legal, valid and binding obligation of the undersigned, enforceable against the undersigned in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Capitalized terms used herein have the same meanings given in the Indenture unless otherwise indicated.

Subsidiary Guarantor:

By:

Name:
Title:

EXHIBIT B
Joinder of Subsidiary Guarantor
3

EXHIBIT 5.1

November 13, 1996

Mego Mortgage Corporation
1000 Parkwood Circle, Suite 500
Atlanta, Georgia 30339

Gentlemen:

On October 4, 1996, Mego Mortgage Corporation, a Delaware corporation (the "Company"), filed with the Securities and Exchange Commission a Registration Statement on Form S-1 (Registration No. 333-13421) (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"). The Registration Statement relates to the sale by the Company of $40,000,000 principal amount of Senior Subordinated Notes of the Company due 2001 (the "Notes"). We have acted as counsel to the Company in connection with the preparation and filing of the Registration Statement.

In connection with the Registration Statement, we have examined, considered and relied upon copies of the following documents (collectively, the "Documents"): (i) the Company's Amended and Restated Certificate of Incorporation and Bylaws; (ii) resolutions of the Company's Board of Directors authorizing the offering and the issuance of the Notes to be sold by the Company and related matters; (iii) the Registration Statement and all amendments and exhibits thereto; and (iv) such other documents and instruments that we have deemed necessary for the expression of the opinions herein contained. In making the foregoing examinations, we have assumed without investigation the genuineness of all signatures and the authenticity of all documents submitted to us as originals, the conformity to authentic original documents of all documents submitted to us as copies, and the veracity of the Documents. As to various questions of fact material to the opinion expressed below, we have relied, to the extent we deemed reasonably appropriate, upon the representations or certificates of officers and/or directors of the Company and upon documents, records and instruments furnished to us by the Company, without independently verifying the accuracy of such certificates, documents, records or instruments.

Based upon the foregoing examination, and subject to the qualifications set forth below, we are of the opinion that the Notes have been duly and validly authorized, and when issued and delivered in accordance with the terms of the Underwriting Agreement filed as Exhibit 1.1 to the Registration Statement, will

be validly issued, fully paid and non-assessable, and binding obligations of the Company.

Although we have acted as counsel to the Company in connection with the preparation and filing of the Registration Statement, our engagement has been limited to certain matters about which we have been consulted. Consequently, there exist matters of a legal nature involving the Company in which we have not been consulted and have not represented the Company. This opinion letter is limited to the matters stated herein and no opinions may be implied or inferred beyond the matters expressly stated herein. The opinions expressed herein are given as of this date, and we assume no obligation to update or supplement our opinions to reflect any facts or circumstances that may come to our attention or any change in law that may occur or become effective at a later date.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our name under the caption "Legal Matters" in the prospectus comprising a part of the Registration Statement. In giving such consent, we do not thereby admit that we are included within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations promulgated thereunder.

Sincerely,

GREENBERG, TRAURIG, HOFFMAN,
LIPOFF, ROSEN & QUENTEL, P.A.

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 2 to Registration Statement No. 333-13421 of Mego Mortgage Corporation on Form S-1 of our report dated October 28, 1996, appearing in the Prospectus, which is part of this Registration Statement, and to the references to us under the headings "Selected Financial Data" and "Experts" in such Prospectus.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada
November 13, 1996

EXHIBIT 25.1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY AND QUALIFICATION
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

AMERICAN STOCK TRANSFER & TRUST COMPANY
(Exact name of trustee as specified in its charter)

New York (State of incorporation if not a national bank)	13-3439945 (I.R.S. employer identification No.)
40 Wall Street New York, New York (Address of trustee's principal executive offices)	10005 (Zip Code)

MEGO MORTGAGE CORPORATION

(Exact name of obligor as specified in its charter)

Delaware	88-0286042
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification No.)
1000 Parkwood Circle Suite 500 Atlanta, Georgia	30339
(Address of principal executive offices)	(Zip Code)

% Senior Subordinated Notes Due 2001

(Title of the Indenture Securities)

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GENERAL

1. General Information.

Furnish the following information as to the trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

New York State Banking Department, Albany, New York

(b) Whether it is authorized to exercise corporate trust powers.

The Trustee is authorized to exercise corporate trust powers.

2. Affiliations with Obligor and Underwriters.

If the obligor or any underwriter for the obligor is an affiliate of the trustee, describe each such affiliation.

None.

3. Voting Securities of the Trustee.

Furnish the following information as to each class of voting securities of the trustee:

As of November 1, 1996

COL. A	COL. B
Title of Class	Amount Outstanding
Common Shares - par value $600 per share.	1,000 shares

4. Trusteeships under Other Indentures.

None.

5. Interlocking Directorates and Similar Relationships with the Obligor or Underwriters.

None.

6. Voting Securities of the Trustee Owned by the Obligor or its Officials.

None.

7. Voting Securities of the Trustee Owned by Underwriters or their Officials.

None.

8. Securities of the Obligor Owned or Held by the Trustee.

None.

9. Securities of Underwriters Owned or Held by the Trustee.

None.

10. Ownership or Holdings by the Trustee of Voting Securities of Certain Affiliates or Security Holders of the Obligor.

None.

11. Ownership or Holdings by the Trustee of any Securities of a Person Owning 50 Percent or More of the Voting Securities of the Obligor.

None.

12. Indebtedness of the Obligor to the Trustee.

None.

13. Defaults by the Obligor.

None.

14. Affiliations with the Underwriters.

None.

15. Foreign Trustee.

Not applicable.

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16. List of Exhibits.

T-1.1 - A copy of the Organization Certificate of American Stock Transfer & Trust Company, as amended to date including authority to commence business and exercise trust powers was filed in connection with the Registration Statement of Live Entertainment, Inc., File No. 33-54654, and is incorporated herein by reference.

T-1.4 - A copy of the By-Laws of American Stock Transfer & Trust Company, as amended to date was filed in connection with the Registration Statement of Live Entertainment, Inc., File No. 33-54654, and is incorporated herein by reference.

T-1.6 - The consent of the Trustee required by Section

312(b) of the Trust Indenture Act of 1939. - Exhibit A.

T-1.7 - A copy of the latest report of condition of the Trustee published pursuant to law or the requirements of its supervising or examining authority. - Exhibit B.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the Trustee, American Stock Transfer and Trust Company, a corporation organized and existing under the laws of the State of New York, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of New York, and State of New York, on the 4th day of November 1996 .

AMERICAN STOCK TRANSFER
AND TRUST COMPANY
Trustee

By: /s/

Vice President

EXHIBIT A

Securities and Exchange Commission
Washington, DC 20549

Gentlemen:

Pursuant to the provisions of Section 321 (b) of the Trust Indenture Act of 1939, and subject to the limitations therein contained, American Stock Transfer & Trust Company hereby consents that reports of examinations of said corporation by Federal, State, Territorial or District authorities may be furnished by such authorities to you upon request therefor.

Very truly yours,

AMERICAN STOCK TRANSFER
& TRUST COMPANY

By /s/

Vice President