

LITCHFIELD FINANCIAL CORP /MA

FORM 10-Q (Quarterly Report)

Filed 05/14/97 for the Period Ending 03/31/97

Address	430 MAIN STREET WILLIAMSTOWN, MA 01267
Telephone	4134581000
CIK	0000882515
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	12/31

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Filed 5/14/1997 For Period Ending 3/31/1997

Address	430 MAIN STREET WILLIAMSTOWN, Massachusetts 01267
Telephone	413-458-1000
CIK	0000882515
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended MARCH 31, 1997

Commission File Number: 0-19822

LITCHFIELD FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

MASSACHUSETTS

04-3023928

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

789 MAIN ROAD, STAMFORD, VT

05352

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (802) 694-1200

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

As of May 12, 1997, 5,536,651 shares of common stock of Litchfield Financial Corporation were outstanding.

LITCHFIELD FINANCIAL CORPORATION
FORM 10-Q

QUARTER ENDED MARCH 31, 1997

INDEX

	PAGE
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 2. Changes in Securities	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits and Reports on Form 8-K	17
SIGNATURES	18

LITCHFIELD FINANCIAL CORPORATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS

PART I - FINANCIAL STATEMENTS

Item 1. Financial Statements

LITCHFIELD FINANCIAL CORPORATION
Consolidated Balance Sheets
(in 000's except share amounts)

	March 31, 1997	December 31, 1996
	(unaudited)	-----
ASSETS		
Cash and cash equivalents	\$ 8,586	\$ 5,557
Restricted cash	20,827	18,923
Loans held for sale, net of allowance for loan losses of \$827 in 1997 and \$817 in 1996	12,895	12,260
Loans held for investment, net of allowance for loan losses of \$1,385 in 1997 and \$1,200 in 1996	90,969	79,996
Retained interests in loan sales	28,285	28,912
Other assets	7,467	7,041
	-----	-----
Total assets	\$169,029	\$152,689
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Lines of credit	\$ 47,529	\$ 36,299
Term note payable	6,903	7,428
Accounts payable and accrued liabilities	6,982	3,811
Dealer/developer reserves	10,631	10,628
Deferred income taxes	5,472	5,080
	-----	-----
	77,517	63,246
	-----	-----
10% Notes due 2002	12,785	12,785
8 7/8 % Notes due 2003	15,930	15,930
10% Notes 2004	18,280	18,280
	-----	-----
	46,995	46,995
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 1,000,000 shares, none issued and outstanding	---	---
Common stock, \$.01 par value; authorized 8,000,000 shares, 5,525,251 shares issued and outstanding in 1997 and 5,444,399 shares issued and outstanding in 1996	55	54
Additional paid in capital	35,321	34,633
Net unrealized gain on retained interests in loan sales	235	---
Retained earnings	8,906	7,761
	-----	-----
Total stockholders' equity	44,517	42,448
	-----	-----
Total liabilities and stockholders' equity	\$169,029	\$152,689
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

FORM 10-Q

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Income
(in 000's except share and per share amounts)

Unaudited

	Three Months Ended March 31,	
	1997	1996
	-----	-----
Revenues:		
Interest income	\$4,546	\$3,292
Gain on sale of loans	1,504	880
Servicing and other fee income	357	478
	-----	-----
	6,407	4,650
	=====	=====
Expenses:		
Interest expense	2,394	1,529
Salaries and employee benefits	813	737
Other operating expenses	903	664
Provision for loan losses	435	425
	-----	-----
	4,545	3,355
	-----	-----
Income before income taxes	1,862	1,295
Provision for income taxes	717	497
	-----	-----
Net income	\$1,145	\$ 798
	=====	=====
Primary and fully-diluted net income per common share	\$.20	\$.14
	=====	=====
Fully diluted weighted average number of shares	5,791,669	5,700,891

See accompanying notes to unaudited consolidated financial statements.

FORM 10-Q

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Stockholders' Equity
(in 000's)

Unaudited

	Common Stock	Additional Paid In Capital	Net Unrealized Gain on Retained Interests in Loan Sales	Retained Earnings	Total
Balance, December 31, 1996	\$54	\$34,633	\$ ---	\$7,761	\$42,448
Issuance of 80,852 shares of common stock	1	688	---	---	689
Net unrealized gain on retained interests in loan sales	---	---	235	---	235
Net income	---	---	---	1,145	1,145
Balance, March 31, 1997	\$55	\$35,321	\$235	\$8,906	\$44,517
	=====	=====	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

FORM 10-Q

LITCHFIELD FINANCIAL CORPORATION
 Consolidated Statements of Cash Flows
 (in 000's)

Unaudited

	Three Months Ended March 31,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,145	\$ 798
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of loans	(1,504)	(880)
Amortization and depreciation	129	145
Amortization of retained interests in loan sales	1,014	654
Provision for loan losses	435	425
Deferred income taxes	392	49
Net changes in operating assets and liabilities:		
Restricted cash	(1,904)	(1,534)
Loans held for sale	(547)	(6,185)
Retained interests in loan sales	(132)	(235)
Dealer/developer reserves	3	(137)
Net change in other assets and liabilities	2,110	(116)
	-----	-----
Net cash provided by (used in) operating activities	1,141	(7,016)
	-----	-----
Cash flows from investing activities:		
Redemption of investments held to maturity	16	24
Net originations and principal payments on loans held for investment	(10,973)	(9,008)
Collections on retained interests in loan sales	1,499	---
Capital expenditures and other assets	(48)	(12)
	-----	-----
Net cash used in investing activities	(9,506)	(8,996)
	-----	-----
Cash flows from financing activities:		
Net borrowings on lines of credit	11,230	2,400
Payments on term note	(525)	(447)
Net proceeds from issuance of common stock	689	28
	-----	-----
Net cash provided by financing activities	11,394	1,981
	-----	-----
Net increase (decrease) in cash and cash equivalents	3,029	(14,031)
Cash and cash equivalents, beginning of period	5,557	18,508
	-----	-----
Cash and cash equivalents, end of period	\$ 8,586	\$ 4,477
	=====	=====
Supplemental Schedule of Noncash Financing and Investing Activities:		
Transfers from loans to real estate acquired through foreclosure	\$ 447	\$ 107
	=====	=====
Supplemental Cash Flow Information:		
Interest paid	\$ 2,300	\$ 1,522
	=====	=====
Income taxes paid	\$ 325	\$ 443
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A. Basis of Presentation

The accompanying unaudited consolidated interim financial statements as of March 31, 1997 and for the three month periods ended March 31, 1997 and 1996 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1997, are not necessarily indicative of the results expected for the year ended December 31, 1997. For further information, refer to the consolidated financial statements and footnotes thereto included in Litchfield Financial Corporation's annual report on Form 10-K for the year ended December 31, 1996.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. Under the new standard, primary earnings per share would have been \$.01 per share higher for each of the quarters ended March 31, 1997 and 1996. The impact of Statement 128 on the calculation of fully diluted earnings per share for these quarters is not expected to be material.

B. Gain on Sale of Loans and Retained Interests in Loan Sales

The Company adopted the requirements of Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" for transfers of receivables. There was no effect on net income in the first quarter as a result of adopting the standard. The Company has reclassified as retained interests in loan sales certain subordinated pass-through certificates, interest only strips and recourse obligations in connection with adopting the standard.

Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. The Company carries any retained interests in the transferred assets at an allocated amount of the previous carrying amount. Newly created interests which consist primarily of interest only strips and recourse obligations are initially recorded at fair value. The previous carrying amount is allocated between the assets sold and any retained interests based on their relative fair values at the date of transfer. Retained interests in transferred assets consist primarily of subordinate portions of the principal balance of transferred assets.

The Company estimates fair value using discounted cash flow analysis (using a discount rate commensurate with the risks involved), because quoted market prices are not available. The Company's analysis incorporates assumptions that market participants would use in their estimates of future cash flows

FORM 10-Q
LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

including assumptions about interest, defaults and prepayment rates. The Company considers retained interests in loan sales, such as subordinated pass-through certificates and interest only strips, as available for sale because such interests are subject to prepayment.

There is generally no servicing asset or liability because the Company estimates that the benefits of servicing are just adequate to compensate it for its servicing responsibilities.

Since its inception, the Company has sold \$261,494,000 of loans at face value (\$249,451,000 through December 31, 1996). The principal amount remaining on the loans sold was \$131,162,000 at March 31, 1997 and \$129,619,000 at December 31, 1996. The Company guarantees, through replacement or repayment, loans in default up to a specified percentage of loans sold. Dealer/developer guaranteed loans are secured by repurchase or replacement guarantees in addition to, in most instances, dealer/developer reserves.

The Company's undiscounted exposure to loss on loans sold in the event of nonperformance by the consumer, default by the dealer/developer on its guarantee, and the determination that the collateral is of no value was \$8,698,000 at March 31, 1997 (\$8,780,000 at December 31, 1996). The Company repurchased \$335,000 and \$115,000 of loans under the recourse provisions of loan sales during the three months ended March 31, 1997 and 1996, respectively, and \$991,000 during the year ended December 31, 1996. In addition, when the Company sells loans through securitization programs, the Company commits either to replace or repurchase any loans that do not conform to the requirements thereof in the operative loan sale documents. As of March 31, 1997, \$19,616,000 of the Company's cash was restricted as credit enhancements in connection with certain securitization programs.

The Company's Serviced Portfolio is geographically diversified with collateral and consumers located in 41 and 50 states, respectively. The Serviced Portfolio consists of the principal of Land, VOI and Dealer/Other Loans serviced by or on behalf of the Company. At March 31, 1997, 15.6% of the portfolio by collateral location was located in Texas, and 14.1% and 14.0% of the portfolio by borrower location was located in Texas and Florida, respectively. No other state accounted for more than 10.0% of the total.

C. Allowance for loan losses

The total allowance for loan losses consists of the following:

	March 31, 1997	December 31, 1996
Allowance for losses on loans held for sale	\$ 827,000	\$ 817,000
Allowance for losses on loans held for investment	1,385,000	1,200,000
Recourse obligation on retained interests in loan sales	2,414,000	2,511,000
	-----	-----
	\$4,626,000	\$4,528,000
	=====	=====

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

D. Debt

At March 31, 1997, the Company had a secured line of credit of \$30,000,000 from BankBoston, as lead agent, and Fleet Bank. The Company can elect to borrow all or part of the outstanding balance on the line of credit at either the Banks' prime interest rate or the Eurodollar rate plus 2%. Outstanding borrowings under the line of credit were \$30,000,000 and \$26,200,000 at March 31, 1997 and December 31, 1996, respectively. At December 31, 1996 the outstanding borrowings were \$26,200,000. This line of credit is secured by consumer receivables and other secured loans. The line of credit matured in April 1997 and the Company was granted a thirty day extension. The Company is currently negotiating a renewal and an amendment to the existing line of credit which is expected to close in May 1997. The amendment is to increase the amount of the line of credit and to extend the maturity of the line beyond one year. However, no assurance can be given that such renewal or amendment will be closed.

In January 1997, an additional secured line of credit was increased to \$8,000,000 with another financial institution at that institution's prime rate of interest plus 1.25%. This line of credit matures in January 1998. There were no outstanding borrowings on this line of credit at March 31, 1997 and December 31, 1996. This line of credit is secured by consumer receivables and other secured loans.

In January 1997, the secured line of credit with the Bank of Scotland was increased to \$20,000,000. Interest is payable quarterly in arrears at the Bank's prime interest rate plus 1%. The outstanding borrowings under this facility at March 31, 1997 and December 31, 1996 were \$13,400,000 and \$8,300,000, respectively. This facility is secured by certain retained interests in loan sales, cash collateral accounts and certain other loans and matures in September 1999. The outstanding balance at March 31, 1997 was paid in full in April 1997.

On March 5, 1997, the Company entered into a \$25,000,000 secured line of credit with Green Tree Financial Servicing Corporation. The outstanding borrowings at March 31, 1997 were \$3,214,000. The facility is secured by loans to developers of VOI resorts for the acquisition and development of VOI resorts ("Facility A") and the related financing of consumer purchases of VOIs ("Facility B"). Interest is payable monthly in arrears at the thirty day LIBOR rate plus 3.75% for Facility A and at the thirty day LIBOR rate plus 2% for Facility B. Although the maximum amount that can be borrowed on each facility is \$15,000,000, the aggregate outstanding borrowings cannot exceed \$25,000,000. This facility expires in March 2000.

On March 21, 1997, the Company entered into a \$3,000,000 secured line of credit with an additional financial institution. Interest is payable monthly in arrears at the Bank's base rate plus 1%. This line of credit is secured by consumer receivables and other secured loans and matures in March 1998. There were no outstanding borrowings at March 31, 1997.

The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

The Company also has a revolving line of credit and sale facility as part of an asset backed commercial paper facility with Holland Limited

FORM 10-Q
LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Securitization, Inc. ("HLS") a multi-seller commercial paper issuer sponsored by Internationale Nederlanden (U.S.) Capital Markets, Inc. ("ING"). In October 1996 the Company amended the HLS facility to increase the facility to \$100,000,000, subject to certain terms and conditions, reduce certain credit enhancement requirements and expand certain loan eligibility criteria. The outstanding aggregate balance of the loans pledged and sold under the HLS facility at any time cannot exceed \$100,000,000. The HLS facility expires in June 1998.

In connection with the HLS facility, the Company formed a wholly owned subsidiary, Litchfield Mortgage Securities Corporation 1994 ("LMSC"), to purchase loans from the Company. LMSC either pledges the loans on a revolving line of credit with HLS or sells the loans to HLS. HLS issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LMSC. HLS is not affiliated with the Company or its affiliates. As of March 31, 1997, the outstanding balance of eligible loans sold under the facility was \$65,939,000. Outstanding borrowings under the line of credit at March 31, 1997 and December 31, 1996 were \$915,000 and \$1,799,000, respectively. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

On March 21, 1997, the Company closed an additional revolving line of credit and sale facility of \$25,000,000 with BankBoston's commercial paper conduit, EagleFunding Capital Corporation ("EFCC"). The EFCC facility, which expires in March 2000, is subject to certain terms and conditions, credit enhancement requirements and loan eligibility criteria. The outstanding aggregate balance of the loans pledged and sold under the EFCC facility at any time cannot exceed \$25,000,000.

In connection with the EFCC facility, the Company formed a wholly owned subsidiary, Litchfield Capital Corporation 1995 ("LCC"), to purchase loans from the Company. LCC either pledges the loans on a revolving line of credit with or sells the loans to EFCC. EFCC issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LCC. EFCC is not affiliated with the Company or its affiliates. As of March 31, 1997 the outstanding balance of the eligible loans previously sold under the facility was \$10,700,000. There were no amounts borrowed under the line of credit as of March 31, 1997. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

During the first quarter of 1995, the Company issued a 10.43% promissory note with an initial balance of \$12,500,000 to an insurance company. Principal is payable monthly based on collection of the underlying collateral. The note is redeemable only with the approval of the noteholder. The note is collateralized by certain of the Company's retained interests in loan sales and cash. The balance outstanding on the note was \$6,903,000 and \$7,428,000 at March 31, 1997 and December 31, 1996, respectively. As of March 31, 1997 the approximate value of the underlying collateral was \$12,776,000.

In April 1997, the Company issued unsecured notes with an initial principal balance of \$20,000,000 to Teachers Insurance and Annuity Association ("TIAA"). Interest is payable at 9.3% semiannually in arrears. The notes requires principal reductions of \$7,500,000, \$6,000,000, \$6,000,000 and \$500,000 in March 2001, 2002, 2003 and 2004, respectively. The proceeds were used to repay the outstanding balance on the line of credit with the Bank of Scotland and a portion of the outstanding balance on the line of credit with BankBoston.

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Litchfield Financial Corporation (the "Company") is a specialty finance company which provides financing for the purchase of rural and vacation properties ("Land Loans") and financing of vacation ownership interests ("VOI Loans"), popularly known as timeshare interests. In addition, the Company makes loans to rural land dealers and resort developers secured by consumer receivables and other secured loans (collectively "Dealer/Other Loans").

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gain from the sale of loans and (iii) servicing and other fee income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. Because a significant portion of the Company's revenues is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations.

Results of Operations

The following table sets forth the percentage relationship to revenues, unless otherwise indicated, of certain items included in the Company's statements of income.

	Three months ended March 31,	
	1997	1996
	-----	-----
Revenues:		
Interest and fees on loans	70.9%	70.8%
Gain on sale of loans	23.5	18.9
Servicing and other income	5.6	10.3
	-----	-----
	100.0	100.0
	-----	-----
Expenses:		
Interest expense	37.3	32.9
Salaries and employee benefits	12.7	15.9
Other operating expenses	14.1	14.3
Provision for loan losses	6.8	9.1
	-----	-----
	70.9	72.2
	-----	-----
Income before income taxes	29.1	27.8
Provision for income taxes	11.2	10.6
	-----	-----
Net income	17.9%	17.2%
	=====	=====

Revenues increased 37.8% to \$6,407,000 for the three months ended March 31, 1997, from \$4,650,000 for the same period in 1996. Net income for the three months ended March 31, 1997 increased 43.5% to \$1,145,000 compared to \$798,000 for the same period in 1996. Net income as a percentage of revenues increased to 17.9% for the three months ended March 31, 1997 compared to 17.2% for the three

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

months ended March 31, 1996. Loan originations grew 36.9% to \$36,063,000 for the three months ended March 31, 1997 from \$26,350,000 for the same period in 1996. The Serviced Portfolio increased 39.7% to \$256,192,000 at March 31, 1997 from \$183,448,000 at March 31, 1996.

Interest and fees on loans increased 38.1% to \$4,546,000 for the three months ended March 31, 1997 from \$3,292,000 in 1996, primarily as the result of the increase in loans held for investment and retained interests in loan sales. Interest and fees on loans, retained interests in loan sales, and cash and investments comprised 74.4%, 19.6%, and 6.0%, respectively, of interest and fees on loans for the three months ended March 31, 1997, compared with 67.2%, 22.9%, and 9.9%, respectively, for the same period in the prior year. Interest earned on loans and retained interests in loan sales increased 52.9% and 18.2%, respectively, for the first three months of 1997 compared to the first three months of 1996. Interest earned on cash and investments decreased 16.4% for the three months ended March 31, 1997 compared to the same period in 1996. The average rate earned on loans owned and retained interests in loan sales decreased to 12.4% for the three months ended March 31, 1997 from 13.3% for the three months ended March 31, 1996, primarily due to the effect of the growth in Dealer/Other Loans as a percentage of the Serviced Portfolio. Dealer/Other Loan yields are usually less than Land Loan or VOI Loan yields, but Dealer/Other Loans servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 70.9% to \$1,504,000 for the three months ended March 31, 1997 from \$880,000 in the same period in 1996. The volume of loans sold increased 127.3% to \$12,043,000 for the three months ended March 31, 1997 from \$5,299,000 during the corresponding period in 1996. Gain on sale of loans increased less than the volume of loans sold primarily due to the lower amount of discount relating to loans sold and, to a lesser extent, the lower spread between the coupon rate of the loans sold and the pass-through rate.

Loans serviced for others increased 26.2% to \$131,162,000 as of March 31, 1997 from \$103,952,000 at March 31, 1996. Servicing and other fee income decreased 25.3% to \$357,000 for the three months ended March 31, 1997, from \$478,000 compared to the same period in 1996. Servicing and other fee income decreased despite the increase in loans serviced for others due to a decrease in the average servicing fee per loan. In connection with the Company's continued growth, the Company decided to subcontract its servicing rights in order to avoid incurring additional fixed overhead costs associated with such servicing. Accordingly, the Company subcontracted, to an unaffiliated third party, the servicing of VOI Loans in 1995 and Land and Dealer/Other Loans in April 1996.

Interest expense increased 56.6% to \$2,394,000 during the three months ended March 31, 1997 from \$1,529,000 for the same period in 1996. The increase in interest expense primarily reflects an increase in average borrowings which was only partially offset by a decrease in average rates. During the three months ended March 31, 1997, borrowings averaged \$98,952,000 at an average rate of 8.9% as compared to \$57,602,000 and 9.8%, respectively, for the three months ended March 31, 1996. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 10.3% to \$813,000 for the three months ended March 31, 1997 from \$737,000 for the same period in 1996 because of an increase in the number of employees in 1997 and, to a lesser extent, an increase in salaries. The number of full time equivalents increased to 61 at March 31, 1997 compared to 53 at March 31, 1996. Personnel costs as a percentage of revenues decreased to 12.7% for the three months ended March 31, 1997 compared to 15.9% for the same period in 1996 primarily as a result of subcontracting of servicing to a third party.

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Other operating expenses increased 36.0% to \$903,000 for the three months ended March 31, 1997 from \$664,000 for the same period in 1996 primarily as the result of subcontracting of servicing to a third party. As a percentage of revenues, other operating expenses decreased slightly to 14.1% for the first three months in 1997 compared to 14.3% for the first three months in 1996.

During the three months ended March 31, 1997, the Company increased its provision for loan losses 2.4% to \$435,000 from \$425,000 for the same period in 1996. The provision for loan losses increased less than the increase in loans owned and retained interests in loan sales because of the growth in Dealer/Other Loans as a percentage of the serviced portfolio. Dealer/Other Loans have experienced significantly lower delinquency and default rates than Land Loans and VOI Loans.

Liquidity and Capital Resources

The Company's business requires continued access to short and long-term sources of debt financing and equity capital. The Company's principal cash requirements arise from loan originations, repayment of debt on maturity, payments of operating and interest expenses and loan repurchases. The Company's primary sources of liquidity are loan sales, short-term borrowings under secured lines of credit, long-term debt and equity offerings and cash flows from operations.

In connection with certain loan sales, the Company commits to repurchase from investors any such loans that become 90 days or more past due. This obligation is subject to various terms and conditions, including, in some instances, a limitation on the amount of loans that may be required to be repurchased. There were approximately \$8,698,000 of loans at March 31, 1997 which the Company could be required to repurchase in the future should such loans become 90 days or more past due. The Company repurchased \$335,000 and \$155,000 of such loans under the recourse provisions of loan sales during the three months ended March 31, 1997 and 1996, respectively. As of March 31, 1997, \$19,616,000 of the Company's cash was restricted as credit enhancements in connections with certain securitization programs.

The Company funds its loan purchases in part with borrowings under various bank lines of credit. Lines are paid down when the Company receives the proceeds from the sale of the loans or when cash is otherwise available. At March 31, 1997, the Company had a secured line of credit of \$30,000,000 from BankBoston, as lead agent, and Fleet Bank. The Company can elect to borrow all or part of the outstanding balance on the line of credit at either the Banks' prime interest rate or the Eurodollar rate plus 2%. Outstanding borrowings under the line of credit were \$30,000,000 and \$26,200,000 at March 31, 1997 and December 31, 1996, respectively. At December 31, 1996 the outstanding borrowings were \$26,200,000. This line of credit is secured by consumer receivables and other secured loans. The line of credit matured in April 1997 and the Company was granted a thirty day extension. The Company is currently negotiating a renewal and an amendment to the existing line of credit which is expected to close in May 1997. The amendment is to increase the amount of the line of credit and to extend the maturity of the line beyond one year. However, no assurance can be given that such renewal or amendment will be closed.

In January 1997, an additional secured line of credit was increased to \$8,000,000 with another financial institution at that institution's prime rate

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

of interest plus 1.25%. This line of credit matures in January 1998. There were no outstanding borrowings on this line of credit at March 31, 1997 and December 31, 1996. This line of credit is secured by consumer receivables and other secured loans.

In January 1997, the secured line of credit with the Bank of Scotland was increased to \$20,000,000. Interest is payable quarterly in arrears at the Bank's prime interest rate plus 1%. The outstanding borrowings under this facility at March 31, 1997 and December 31, 1996 were \$13,400,000 and \$8,300,000, respectively. This facility is secured by certain retained interests in loan sales, cash collateral accounts and certain other loans and matures in September 1999. The outstanding balance at March 31, 1997 was paid in full in April 1997.

On March 5, 1997, the Company entered into a \$25,000,000 secured line of credit with Green Tree Financial Servicing Corporation. The outstanding borrowings at March 31, 1997 were \$3,214,000. The facility is secured by loans to developers of VOI resorts for the acquisition and development of VOI resorts ("Facility A") and the related financing of consumer purchases of VOIs ("Facility B"). Interest is payable monthly in arrears at the thirty day LIBOR rate plus 3.75% for Facility A and at the thirty day LIBOR rate plus 2% for Facility B. Although the maximum amount that can be borrowed on each facility is \$15,000,000, the aggregate outstanding borrowings cannot exceed \$25,000,000. This facility expires in March 2000.

On March 21, 1997, the Company entered into a \$3,000,000 secured line of credit with an additional financial institution. Interest is payable monthly in arrears at the Bank's base rate plus 1%. This line of credit is secured by consumer receivables and other secured loans and matures in March 1998. There were no outstanding borrowings at March 31, 1997.

The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

The Company also has a revolving line of credit and sale facility as part of an asset backed commercial paper facility with Holland Limited Securitization, Inc. ("HLS") a multi-seller commercial paper issuer sponsored by Internationale Nederlanden (U.S.) Capital Markets, Inc. ("ING"). In October 1996 the Company amended the HLS facility to increase the facility to \$100,000,000, subject to certain terms and conditions, reduce certain credit enhancement requirements and expand certain loan eligibility criteria. The outstanding aggregate balance of the loans pledged and sold under the HLS facility at any time cannot exceed \$100,000,000. The HLS facility expires in June 1998.

In connection with the HLS facility, the Company formed a wholly owned subsidiary, Litchfield Mortgage Securities Corporation 1994 ("LMSC"), to purchase loans from the Company. LMSC either pledges the loans on a revolving line of credit with HLS or sells the loans to HLS. HLS issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LMSC. HLS is not affiliated with the Company or its affiliates. As of March 31, 1997, the outstanding balance of eligible loans sold under the facility was \$65,939,000. Outstanding borrowings under the line of credit at March 31, 1997 and December 31, 1996 were \$915,000 and \$1,799,000, respectively. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

On March 21, 1997, the Company closed an additional revolving line of credit and sale facility of \$25,000,000 with BankBoston's commercial paper conduit, EagleFunding Capital Corporation ("EFCC"). The EFCC facility, which expires in March 2000, is subject to certain terms and conditions, credit

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

enhancement requirements and loan eligibility criteria. The outstanding aggregate balance of the loans pledged and sold under the EFCC facility at any time cannot exceed \$25,000,000.

In connection with the EFCC facility, the Company formed a wholly owned subsidiary, Litchfield Capital Corporation 1995 ("LCC"), to purchase loans from the Company. LCC either pledges the loans on a revolving line of credit with or sells the loans to EFCC. EFCC issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LCC. EFCC is not affiliated with the Company or its affiliates. As of March 31, 1997 the outstanding balance of the eligible loans previously sold under the facility was \$10,700,000. There were no amounts borrowed under the line of credit as of March 31, 1997. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

During the first quarter of 1995, the Company issued a 10.43% promissory note with an initial balance of \$12,500,000 to an insurance company. Principal is payable monthly based on collection of the underlying collateral. The note is redeemable only with the approval of the noteholder. The note is collateralized by certain of the Company's retained interests in loan sales and cash. The balance outstanding on the note was \$6,903,000 and \$7,428,000 at March 31, 1997 and December 31, 1996, respectively. As of March 31, 1997 the approximate value of the underlying collateral was \$12,776,000.

In April 1997, the Company issued unsecured notes with an initial principal balance of \$20,000,000 to Teachers Insurance and Annuity Association ("TIAA"). Interest is payable at 9.3% semiannually in arrears. The notes requires principal reductions of \$7,500,000, \$6,000,000, \$6,000,000 and \$500,000 in March 2001, 2002, 2003 and 2004, respectively. The proceeds were used to repay the outstanding balance on the line of credit with the Bank of Scotland and a portion of the outstanding balance on the line of credit with BankBoston.

The Company manages its exposure to changes in interest rates by attempting to match its proportion of fixed versus variable rate assets, liabilities and loan sale facilities. The Company has further mitigated its interest rate exposure due to interest rate declines by instituting interest rate floors on certain of its adjustable rate loans.

Historically, the Company has not required major capital expenditures to support its operations.

Credit Quality and Allowances for Loan Losses

The Company maintains allowances for loan losses and recourse obligations on retained interests in loan sales at levels which, in the opinion of management, provide adequately for current and possible future losses on such assets. Past-due loans (loans 30 days or more past due which are not covered by dealer/developer reserves and guarantees) as a percentage of the Serviced Portfolio were 1.31% as of March 31, 1997 compared with 1.34% at December 31, 1996 and 1.75% at March 31, 1996. Management evaluates the adequacy of the allowances on a quarterly basis by examining current delinquencies, the characteristics of the accounts, the value of the underlying collateral, and general economic conditions and trends. Management also evaluates the extent to which dealer/developer reserves and guarantees can be expected to absorb loan losses. A provision for loan losses is recorded in an amount deemed sufficient

LITCHFIELD FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

by management to maintain the allowances at adequate levels. Total allowances for loan losses and recourse obligations on retained interests in loan sales increased to \$4,626,000 at March 31, 1997 compared to \$4,528,000 at December 31, 1996. The allowance ratio (the allowances for loan losses divided by the amount of the Serviced Portfolio) at March 31, 1997 decreased slightly to 1.81% from 1.87% at December 31, 1996.

As part of the Company's financing of Land Loans and VOI Loans, arrangements are entered into with dealers and resort developers, whereby reserves are established to protect the Company from potential losses associated with such loans. As part of the Company's agreement with the dealers and resort developers, a portion of the amount payable to each dealer and resort developer for a Land Loan or a VOI Loan is retained by the Company and is available to the Company to absorb loan losses for those loans. The Company negotiates the amount of the reserves with the dealers and developers based upon various criteria, two of which are the financial strength of the dealer or developer and credit risk associated with the loans being purchased. Dealer/developer reserves amounted to \$10,631,000 and \$10,628,000 at March 31, 1997 and December 31, 1996, respectively. The Company generally returns any excess reserves to the dealer/developer on a quarterly basis as the related loans are repaid by borrowers.

Inflation

Inflation has not had a significant effect on the Company's operating results to date.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

At the Company's Annual Meeting of Stockholders held on April 25, 1997, Richard A. Stratton and James Westra each were elected to serve as directors of the Company for a term expiring at the 2000 Annual Meeting by a vote of 4,751,082 and 4,751,072 shares voting for their election and 6,180 and 6,190 shares abstaining, respectively. In addition, the stockholders approved by a vote of 4,731,709 shares for, 11,163 shares against, and 14,390 shares abstaining, Ernst & Young LLP as the Company's independent public accountants for 1997.

The Company solicited proxies for the Annual Meeting pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the Company's nominees for director, and all nominees were elected.

Item 5. Other Information

None

Item 6. (a) Exhibits

The following exhibits are filed herewith:

10.152- Master revolving credit promissory note dated as of March 21, 1997 between Litchfield Financial Corporation and Republic Bank in the principal amount of \$3,000,000.

10.153- Wholesale warehouse loan and mortgage security agreement dated as of March 21, 1997 between Litchfield Financial Corporation and Republic Bank in the principal amount of \$3,000,000.

11.1 - Statement re: computation of earnings per share

27.1 - Financial Data Schedule

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LITCHFIELD FINANCIAL CORPORATION

DATE: May 12, 1997

/s/ Richard A.Stratton

RICHARD A. STRATTON
Chief Executive Officer,
President and Director

DATE: May 12, 1997

/s/ Ronald E.Rabidou

RONALD E. RABIDOU
Chief Financial Officer

Exhibit 11.1

Litchfield Financial Corporation

Computation of Earnings Per Share

	Three months ended	
	March 31,	
	1997	1996
Net income	\$1,145,000 =====	\$ 798,000 =====
Net income per common share	\$.20 =====	\$.14 =====
Weighted average number of common shares outstanding	5,446,679	5,436,149
Weighted average number of common stock equivalents outstanding: Stock Option	344,990 -----	264,742 -----
Fully diluted weighted average common and common equivalent shares outstanding (1)	5,791,669 =====	5,700,891 =====

(1) Primary weighted average number of common stock equivalents were 5,791,623 for the three months ended March 31, 1997 and 5,637,643 for the three months ended March 31, 1996. The difference between primary and fully diluted shares outstanding did not have a material effect on the calculation of earnings per share.

Exhibit 10.152

MASTER REVOLVING CREDIT PROMISSORY NOTE
("MASTER NOTE")

\$3,000,000.00 St. Petersburg, Florida Date: April 21, 1997

FOR VALUE RECEIVED, the undersigned borrower, LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation (hereinafter called "Borrower") promises to pay to the order of REPUBLIC BANK, a Florida banking corporation (hereinafter and together with any holder hereof called "Bank"), at Post Office Box 7010, Clearwater, Florida 34618-7010, or at such other place as Bank may from time to time designate in writing, without grace, upon the first to occur of: DEMAND OR AFTER ONE (1) YEAR (unless automatically renewed hereunder), (the "Maturity Date"), the principal sum not to exceed THREE MILLION DOLLARS (\$3,000,000.00), or so much thereof as has been advanced hereunder, together with interest on the unpaid balance of the principal (the "Loan") from time to time outstanding at the rate equal to the Base Rate plus one percentage point (1.00%) per annum (the "Interest Rate"). In no event, however, shall the interest rate be greater than the maximum rate of interest allowed to be contracted for by applicable law.

Principal and interest shall be due and payable as follows:

(a) To the extent accrued, interest only, as stated above, shall be payable monthly commencing April 1, 1997, and continuing on the first day of each month thereafter until the Maturity Date at which time all outstanding indebtedness, whether principal, accrued interest or otherwise, shall be due and payable in full.

(b) The principal amount evidenced hereby may be borrowed (and to the extent any principal amount advanced hereunder is repaid by Borrower, such sum may be borrowed again) until the Maturity Date. At no time, however, shall the principal balance outstanding hereunder exceed THREE MILLION DOLLARS (\$3,000,000.00).

Interest owing under this Master Note shall be computed on the basis of a 365-day year for actual days lapsed.

As used herein, "Base Rate" shall refer to the base rate of interest per annum which is announced by CITIBANK, N.A., New York, New York ("Citibank") as being its base rate as such base rate changes from time to time. Changes in the Base Rate shall be effective on the effective date announced by CITIBANK.

If any payment on this Master Note becomes due and payable on a Saturday, Sunday or legal holiday under the laws of the State of Florida, the maturity thereof shall be extended to the next succeeding business day and interest thereon shall be payable at contract rate of interest during such extension.

This Master Note is the Master Revolving Credit Note referred to in the Wholesale Warehouse Loan and Mortgage Security Agreement (the "Loan Agreement") between the Borrower and the Bank, as the same may from time to time be amended or supplemented, and all Advances hereunder are subject to the terms and conditions thereof.

Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement, or in any other document or instrument delivered in connection therewith, all amounts then remaining unpaid on this Master Note may be declared to be immediately due and payable as provided in the Loan Agreement.

Loans on this Master Note shall be requested by Borrower and evidenced by an Advance, as provided in the Loan Agreement.

Borrower may repay all or part of the principal balance at any time without penalty. Such prepayment shall be accompanied by payment of any unpaid interest accrued to the time of such prepayment. All payments made hereunder shall at Bank's option first be applied to late charges, then to accrued interest, then to principal.

Permitted partial prepayments shall not affect or vary the duty of Borrower to pay all obligations when due, and they shall not affect or impair the right of Bank to pursue all remedies available to it hereunder, under the security instruments securing this indebtedness, or under any other loan documents or guaranty executed in connection herewith.

In the event Bank has made a demand for repayment of the indebtedness evidenced by this Master Note, Bank, at its option, may notify Borrower that its commitment to lend under this revolving credit is terminated and Bank shall be relieved of all obligations to lend any further sums thereafter to Borrower.

This Master Note has been delivered in the State of Florida, and its terms and provisions are to be governed by and construed under the laws of the State of Florida and of the United States of America, and the rules and regulations promulgated under the authority thereof. It is the intent of this Master Note that such laws shall be interpreted in such a manner that the maximum rate of interest allowed to be contracted for by applicable law as changed from time to time which is applicable to this Master Note (hereinafter called the "Maximum Rate") be as great as possible.

In the event that any payment of interest is not made when due hereunder, it is hereby agreed that the Bank shall have the option of collecting five percent (5%) of the amount of each such delinquent payment. Said late charge and/or interest shall be immediately due and payable in full on demand by the Bank.

In no event shall Bank have the right to charge or collect, nor shall Borrower be required or obligated to pay, interest or payments in the nature of interest, which would result in interest being charged or collected at a rate in excess of the Maximum Rate. In the event that any payment which is interest or in the nature of interest is made by Borrower or received by Bank which would result in the rate of interest being charged or collected by the Bank being in excess of the Maximum Rate, then the portion of any such payment which causes the rate of interest being charged or collected by Bank exceed the Maximum Rate (hereinafter called the "excess sum") shall be credited as a payment of

principal. If Borrower notifies Bank in writing that Borrower elects to have such excess sum returned to Borrower, such excess sum shall be returned to Borrower. In the event that any such overcharge is discovered after this Master Note has been paid in full, then the amount of such excess sum shall be returned to Borrower together with interest thereon from the date such excess sum was paid or collected at the same rate as was due Bank during such period under the terms of this Master Note. All excess sums credited to principal shall be credited as of the date paid to Bank.

The "Default Interest Rate" shall be five percent (5%) per annum above the contract interest rate set forth above, but in no event at a rate which is higher than the Maximum Rate permitted by law.

Upon a failure by Borrower to repay principal upon demand by Bank, the entire unpaid principal balance shall bear interest at the "Default Interest Rate". In addition to the rights described in this paragraph, Bank shall have the right to exercise all other rights or remedies provided by law or at equity and shall specifically have the right to recover all damages resulting from such default including, without limitation, the right to recover the payment of all amounts owing to Bank. Exercise of any of these options shall be without notice to Borrower, notice of such exercise being hereby expressly waived.

Time is of the essence hereunder. In the event that this Master Note is collected by law or through attorneys at law, or under advice therefrom, Borrower and any other person liable for payment hereof hereby, severally and jointly, agree to pay all costs of collection, including reasonable attorneys' fees and costs (including charges for paralegals and others working under the direction or supervision of Bank's attorneys) and all sales or use taxes thereon, whether or not suit is brought, and whether incurred in connection with collection, trial, appeal, bankruptcy or other creditor's proceedings or otherwise, and, if Bank's attorneys shall include employees of Bank or of any person controlling, controlled by or under common control with Bank, such reasonable attorney's fees shall include costs allocated by Bank's or such person's internal legal department.

Borrower authorizes Bank, from time to time, to debit any account that Borrower may have with Bank, for any payment of principal or interest past due hereunder for the amount of such payment of principal or interest. Exercise of this right shall be optional with Bank and the provisions of this paragraph shall not be construed as releasing Borrower from the obligation to make payments of principal or interest according to the terms hereof.

The remedies of Bank as provided herein shall be cumulative and concurrent, and may be pursued singularly, successively, or together, at the sole discretion of Bank. No act of omission or commission of Bank, including specifically any failure to exercise any right, remedy or recourse, shall be deemed to be a waiver or release of the same, such waiver or release to be effected only through a written document executed by Bank and then only to the extent specifically recited therein. A waiver or release with reference to any one event shall not be construed as continuing, as a bar to, or as a waiver of release of, any subsequent right, remedy or recourse as to a subsequent event.

All persons now or at any time liable, whether primarily or secondarily, for the payment of the indebtedness hereby evidenced, for themselves, their heirs, legal representatives, successors and assigns, respectively, hereby: (a) expressly waive any presentment, demand for payment, notice of dishonor, protest, notice of nonpayment or protest, all other forms of notice whatsoever, and diligence in collection; (b) consent that Bank may, from time to time, and

without notice to them or demand: (i) extend, rearrange, renew or postpone any or all payments and/or (ii) release, exchange, add to or substitute all or any part of the collateral for this Master Note, without in any way modifying, altering, releasing, affecting or limiting their respective liability or the lien of any security instrument; (c) agree that Bank, in order to enforce payment of this Master Note against them shall not be required first to institute any suit or to exhaust any of its remedies against any Borrower or any other person or party or to attempt to realize on the collateral for this Master Note. Continuation of the revolving credit facility shall be reviewed by Bank on an annual basis as of twelve (12) months from the date of this Note and as the same date of each subsequent year. In the event the Bank determines to terminate this Loan after such annual review, Bank shall give the Borrower written notice of such termination within ten (10) days of the annual date of the Loan to be effective thirty (30) days after the date of said notice. If the Bank does not give the written notice within such period, the Note will automatically renew for another one year period.

BORROWER AND ANY OTHER PERSON LIABLE FOR PAYMENT HEREOF, BY EXECUTING THIS MASTER NOTE OR ANY OTHER DOCUMENT CREATING SUCH LIABILITY, WAIVE THEIR RIGHTS TO A TRIAL BY JURY IN ANY ACTION WHETHER ARISING IN CONTRACT OR TORT, BY STATUTE OR OTHERWISE, IN ANY WAY RELATED TO THIS MASTER NOTE. THIS PROVISION IS A MATERIAL INDUCEMENT FOR BANK'S EXTENDING CREDIT TO BORROWER AND NO WAIVER OR LIMITATION OF BANK'S RIGHTS HEREUNDER SHALL BE EFFECTIVE UNLESS IN WRITING AND MANUALLY SIGNED ON BANK'S BEHALF.

Borrower acknowledges that the above paragraph has been expressly bargained for by Bank as part of the loan evidenced hereby and that, but for Borrower's agreement and the agreement of any other person liable for payment hereof thereto, Bank would not have extended the loan for the term and with the interest rate provided herein.

If more than one party shall execute this Master Note, the term "Borrower", as used herein, shall mean all parties signing this Master Note and each of them, who shall be jointly and severally obligated hereunder. In this Master Note, whenever the context so requires, the neuter gender includes the feminine and/or masculine, as the case may be, and the singular number includes the plural.

IN WITNESS WHEREOF, Borrower has caused this Master Note to be executed in its name on the day and year first above written.

THE UNDERSIGNED ACKNOWLEDGES THAT THE LOAN EVIDENCED HEREBY IS FOR COMMERCIAL PURPOSES ONLY AND NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES.

LITCHFIELD FINANCIAL CORPORATION,
a Massachusetts corporation

By: /s/Heather A.Sica

Heather A. Sica,
As its Executive Vice President

(CORPORATE SEAL)

"BORROWER"

STATE OF VERMONT
COUNTY OF Bennington

The foregoing instrument was acknowledged before me this 19th day of March, 1997 by HEATHER A. SICA, as Executive Vice President of LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation, who is personally known to me or who produced a New York State Driver's License as identification, on behalf of the corporation.

/s/ Jane E.Ruzicka

Notary Public-State of Vermont

My Commission Expires:

Jane E.Ruzicka

(Print or Type Name of Notary)

WHOLESALE WAREHOUSE LOAN AND MORTGAGE SECURITY AGREEMENT

THIS WHOLESALE WAREHOUSE LOAN AND MORTGAGE SECURITY AGREEMENT (the "Loan Agreement") made this 21st day of March, 1997, among REPUBLIC BANK, a Florida banking corporation, having a mailing address of 111 Second Avenue N.E., St Petersburg, FL 33701 (hereinafter referred to as the "Bank") and LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation (hereinafter referred to as the "Borrower"), having its principal place of business at 789 Main Road, Stamford, VT 05352.

RECITALS:

A. The Borrower has applied to the Bank for a revolving line of credit not to exceed Three Million Dollars (\$3,000,000.00) (the "Loan") to be evidenced by a master promissory note (the "Note") and secured by certain eligible secured notes of Borrower.

B. The Bank has agreed to make the Loan providing certain conditions herein outlined are fully complied with.

NOW, THEREFORE, in consideration of the premises and covenants hereinafter contained, the parties hereto agree as follows:

SECTION 1. RECITALS; DEFINITIONS

1.1 Recitals. The foregoing recitals are true and correct and incorporated herein by reference.

1.2 Defined Terms. As used in this Loan Agreement (such term and other capitalized terms used herein having the respective meanings specified and defined in this Section 1.2), the following terms shall have the following meanings:

"Advance" or "Advances" shall mean the amount advanced by the Bank to Borrower from time to time under the terms of this Loan Agreement and the Note.

"Affiliate" shall mean any person, corporation, association or other business entity which directly or indirectly controls, or is controlled by, or is under common control with the Borrower.

"Borrowing Base" shall mean, at any date of determination thereof (which date and determination shall be in the Bank's sole discretion) an amount equal to 75% of Eligible Loan Receivables; but in no event shall the aggregate of all Advances under the Loan outstanding at any one time exceed \$3,000,000.00. The Bank has bargained for and Borrower agrees and acknowledges that the collateral not included in the Borrowing Base is a cushion of collateral value in excess of the secured Advances under the Loan.

"Default" the occurrence of any Event of Default that is not cured within any applicable notice and cure period.

"Default Rate" shall mean five (5%) per cent per annum above the contract interest rate but not to exceed the maximum annual rate of interest permitted by then applicable law.

"Eligible Loan Receivables" shall mean, at any date of determination thereof, all Loan Receivables of Borrower: (a) which are bona fide, valid and legally enforceable obligations of the loan debtors in respect thereof, which are unconditionally owing by such loan debtors and which are not in default; (b) which, except for the security interest in the Loan Receivables granted to the Bank, are solely owned by the Borrower, free and clear of any and all other liens, security interests, encumbrances, claims or rights of others; (c) which are not the subject of any defense, offset, counterclaim or claim; (d) as to which no more than 90 days shall have elapsed from the last required payment; (e) as to which no more than 49% of those Loan Receivables for any account is aged ninety (90) days or more from its last payment date, as evidenced by the monthly Loan Receivable aging report; (f) as to which the account debtors are (i) solvent, going concerns unaffiliated with the Borrower or an Affiliate of Borrower, and (ii) reasonably satisfactory to the Bank from a credit standpoint (the Bank's satisfaction may be assumed unless the Bank shall at any time advise the Borrower to the contrary).

"Events of Default" shall have the meaning ascribed to such term in Section 7 hereof.

"Expiration Date" shall mean upon prior demand by the Bank one year after the date hereof if not automatically renewed as provided in the Notes or after Default, whichever first occurs, or such other later date as the parties may agree to in writing.

"Generally Accepted Accounting Principles" shall mean generally accepted accounting principles, in effect from time to time, applied on a consistent basis.

"Loan Receivables" shall mean all mortgage secured notes and other related forms of obligations, now or hereafter owing to the Borrower (including, without limitation, any such obligation that might be characterized as an account, contract right, or general intangible under the Uniform Commercial Code as, from time to time, in effect in the State of Florida), and all collateral security, guarantees and custodial or records management agreements of any kind given by any obligor with respect to any of the foregoing.

SECTION 2. THE REVOLVING CREDIT LOAN.

(a) Advances. Subject to the Borrowing Base limitations and the terms and conditions of this Loan Agreement, the Bank may, in its discretion, make Advances to the Borrower, at any time and from time to time, on or after the date hereof until the earlier of the Expiration Date or the occurrence of an Event of Default, or an event which with the giving of notice or the passage of time, or both, shall constitute an Event of Default; Advances may be borrowed, re-paid and re-borrowed, provided, however, the aggregate outstanding principal amount of all Advances at any time shall not exceed the sum of \$3,000,000.00. In the event any Borrowing Base Certificate discloses that the outstanding balance of Borrower's Loan exceeds the Borrowing Base of Eligible Loan Receivables, Borrower shall remit the difference between the Borrowing Base and the outstanding Loan balance to the Bank within five (5) business days of written demand by the Bank.

(b) Interest. The Bank shall make appropriate debits and credits to the loan account of the Borrower corresponding to each Advance to reflect the Advances to, prepayments and payments for the account of the Borrower. Each such entry shall be prima facie evidence of the principal amount of Advances

hereunder at any time outstanding. Each Advance shall bear interest from the date such Advance is made on the aggregate unpaid principal amount thereof until such principal amount is paid or shall become due and payable (whether at the stated maturity or by acceleration) pursuant to the terms of and at a rate per annum as set in the Note.

(c) Calculation. Interest on principal outstanding from time to time shall be paid monthly, and shall be calculated on the basis of a 365-day year for the actual days elapsed.

(d) Requests for Advances. Borrower shall request Advances under the Loan by giving written notice thereof to the Bank at the address set forth in Section 8 of this Loan Agreement, in form and substance satisfactory to the Bank, together with delivery to the Bank of a Borrowing Base Certificate in the form attached hereto as Exhibit "A" and copies of the Collateral (herein defined) for the Bank's review and the Collateral Documentation (herein defined) if the Bank accepts granting the Advance, and any supporting information it may reasonably request, at the above address.

(e) Commitment. The giving of notice as aforesaid shall irrevocably commit Borrower to accept the requested Advance under the Loan if granted by the Bank.

(f) Limitation. In no event shall any interest charge, collected or reserved hereunder exceed the maximum rate then permitted by applicable law.

(g) Funding. An initial Advance under the Loan shall be made in an amount of up to \$3,000,000.00 for working capital needs subject to the Borrowing Base limitations and the terms and conditions herein.

(h) Collateral. From the date hereof as security for the payment and the performance of the Loan, the Borrower extends, sells, assigns, conveys, mortgages, pledges, transfers, grants, and regrants to the Bank a continuing, first priority security interest in and to all of its respective rights, title and interest in, to and under all Loan Receivables and all other property and money of the Borrower now or hereafter in the possession, custody or control of the Bank; and as to each of the foregoing, the products and proceeds thereof and accessions thereto; all of which shall constitute the "Collateral".

(i) Collateral Documentation. For each Advance Borrower shall grant the Bank a collateral assignment of the following Loan documentation (collectively the "Underlying Loan Documents") depending upon the type of loan to be assigned and as below indicated:

(1) Collateral Assignment of Borrower's Loan Documents including but not limited to the note, mortgage, assignments, security agreements, pledge agreements, financing statements, title insurance policy, custodial and records management agreements and such other documents as evidence and secure the Underlying Loan Documents.

(2) Collateral assignment of the following documents depending on the type of loan assigned, if required by the Bank (or if not required, certification by Borrower that such documentation is in Borrower's possession, is being held by Borrower in trust for the Bank):

(i) A certified survey of the mortgage property, if any, including all improvements thereon, which depicts no facts that would render the title unmarketable.

(ii) Fire and other hazard insurance policies and flood insurance policy, if applicable, or certificates in an amount equal to the full insurable value of the mortgage property.

(iii) An appraisal by a State Certified General Appraiser indicating an appraisal value meeting the Bank's requirements, if available.

(iv) An Environmental Level I report and such other environment reports obtained by Borrower if available.

(v) Any other documents reasonably requested by the Bank at any time, as it may deem necessary in its sole discretion.

(3) Borrower shall not pledge, assign or grant any security interest in any of the Collateral pledged hereunder to anyone other than the Bank.

(4) The Collateral presently or hereafter pledged, assigned and set over under this Loan Agreement secures the following:

(i) The payment of the principal of and interest on the Master Note;

(ii) The payment of any and all amounts due or which hereafter may become due to the Bank from the Borrower pursuant to this Loan Agreement and the performance by the Borrower of all obligations, covenants and agreements under this Loan Agreement;

(iii) The payment of all costs and expenses incurred in the collection of the Master Note and in the enforcement of the rights of the Bank hereunder, which costs and expenses the Borrower agrees to pay; and

(iv) The payment of any and all other obligations of every type made by the Bank to or on behalf of Borrower, regardless of any obligation on the part of the Bank to make such Advances.

(j) Proceeds. No part of the proceeds of any Advance made hereunder will be used to "purchase" or "carry" any "margin stock" or to extend credit to others for the purpose of "purchasing" or "carrying" any "margin stock" (as such terms are defined in the Regulation U of the Board of Governors of the Federal Reserve System), and the assets of Borrower do not include and Borrower has no present interest in acquiring any such security.

SECTION 3. REPRESENTATIONS AND WARRANTIES.

From the date hereof, the Borrower represents and warrants to the Bank as follows:

3.1 Organization, Standing, Corporate Powers.

(a) Duly Organized. The Borrower (i) is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Massachusetts, registered to do business in the State of Florida; (ii) has all requisite power and authority, corporate or otherwise, to conduct its

business as now being conducted and to own its properties and assets; and (iii) is duly qualified to do business in every jurisdiction wherein the failure to so qualify would have a material adverse effect.

(b) Powers. Borrower has all requisite power and authority, corporate or otherwise, to execute, deliver, and to perform all of its obligations under this Loan Agreement and under other documents or agreements relating to the transactions contemplated herein to which it is a party.

(c) Binding Obligation. This Loan Agreement and all corporate notes, assignments, security agreements and all other loan and security agreements executed in connection therewith are legal, valid and binding obligations of the Borrower, as the case may be, and enforceable in accordance with their respective terms.

(d) No Approvals Required. No written approval of any federal, state or local governmental authority is necessary to carry out the terms of this Loan Agreement or the other loan documents referred to herein, and no consents or approvals are required in the making or performance of the loan documents.

(e) No Pending Actions. There are no pending or threatened actions or proceedings before any court, arbitrator or governmental or administrative body or agency which may materially adversely affect the properties, business or condition, financial or otherwise, of the Borrower or in any way adversely affect or call into question the power of the Borrower to enter into or perform the loan documents referred to herein.

(f) Solvency. Borrower is now solvent and able to pay its debts as they mature and now owns property whose fair salable value on a consolidated basis is greater than the amount required to pay its indebtedness.

(g) No Misrepresentations. Neither this Loan Agreement nor any other documents or agreements provided to the Bank by Borrower contains any misrepresentation or untrue statement of fact or omits to state any material fact necessary to make any of such agreements, reports, schedules, certificates or instruments not misleading.

(h) No Default. Borrower covenants that the execution of this Loan Agreement and the other loan documents referred to herein granted by Borrower do not create an event of default with any of Borrower's existing creditors.

The effectiveness of this Loan Agreement shall be subject to the continuing accuracy of all representations and warranties of the Borrower contained herein. Each Advance made to the Borrower pursuant to the Loan Agreement shall constitute an automatic warranty and representation by Borrower to the Bank that there does not exist a Default or any Event of Default or any event or condition which, with notice, lapse of time and/or the making of such Advance, would constitute a Default or any Event of Default and a reaffirmation as of the date of said request of all the representations and warranties of Borrower contained in this Loan Agreement. Borrower covenants, warrants and represents to the Bank that all representations and warranties contained in this Loan Agreement shall be true at the time of execution of the loan documents referred to herein and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

3.2 Authorization of Borrowing. The execution, delivery and performance of this Loan Agreement and the borrowings hereunder: (i) have been duly authorized by all requisite corporate action; (ii) will not violate any provision of applicable law, any governmental rule or regulation, any order of any court or other agency of government to which either of such parties is subject or the Articles of Incorporation or By-laws of the Borrower; or (iii) do not violate any provision of any indenture, agreement or other instrument to which the Borrower is a party or by which the Borrower or its properties or assets are bound and which is material to the conduct or operation of their respective businesses and financial affairs, or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any provision of such indenture, agreement or other instruments, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Borrower, other than as provided herein.

3.3 Financial Statements. The Borrower has heretofore furnished to the Bank the financial statements which fairly present the financial condition and the results of operations of the Borrower as of the date and for the period indicated, show all known material liabilities, direct or contingent, as of the respective dates thereof, and were prepared in accordance with Generally Accepted Accounting Principles applied on a consistent basis.

3.4 Adverse Change. There has been no material adverse change in the business, properties or condition (financial or otherwise) of the Borrower since the date of the most recent of the financial statements delivered to the Bank.

3.5 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, overtly threatened against or affecting it, at law or in equity, or before or by any federal, state, municipal or other governmental court, tribunal, department, commission, board, bureau, agency or instrumentality, domestic or foreign, which involve any of the transactions herein contemplated or the possibility of any judgment or liability which would result in any material adverse change in the business, operations, properties or assets or in the financial condition of Borrower, or materially and adversely affect the ability of Borrower to perform hereunder. Borrower is not in default with respect to (a) any judgment, order, writ, injunction or decree; or (b) any rule or regulation of any court or Federal, state, municipal or other governmental court, tribunal, department, commission, board, bureau, agency or instrumentality, domestic or foreign which would have a material adverse effect on its business, properties or condition (financial or otherwise).

3.6 Payments of Taxes. Borrower has filed or caused to be filed all Federal, state and local tax returns that are required to be filed and has paid or caused to be paid all taxes as shown on such returns or on any assessment received by it, to the extent that such taxes have become due, except taxes the validity of which is being contested in good faith by appropriate proceedings and for which, in the exercise of reasonable business judgment, there have been set aside adequate reserves with respect to any such tax or assessment so contested the tax or assessment so contested shall not materially affect its ability to perform hereunder.

3.7 Priority of Security Interest. Subject (i) to filing and recordation of the appropriate instruments in the appropriate offices of the proper jurisdiction or possession by the Bank or its agent where perfection is based upon possession; (ii) to the enforcement of remedies to bankruptcy, insolvency, and other laws affecting creditors' rights generally and to moratorium laws, from time to time in effect; and (iii) to general equitable principles which may limit the right to obtain the remedy of specific performance, each of the

security interests granted to the Bank as identified under Section 2 of this Loan Agreement constitutes a valid first priority security interest or lien in and to the property covered thereby, unless otherwise disclosed by Borrower, granting all rights and remedies to a secured party under the Uniform Commercial Code, as in effect in the State of Florida, as the same may be modified or amended from time to time, except as otherwise permitted hereunder.

SECTION 4. CONDITIONS OF LENDING.

The obligation of the Bank to extend credit hereunder is subject to the following conditions:

4.1 Representations and Warranties. At the date of each Advance, the representations and warranties set forth in Section 3 hereof shall be true and correct on and as of such date, with the same effect as though such representations and warranties had been made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

4.2 Certificates. On or before the date hereof, the Bank shall have received: (a) from the Borrower: (i) a copy of its certificate of corporate status and Articles of Incorporation with all amendments, certified by the Secretary of State of Massachusetts, dated as of a recent date; (ii) the certificate of its secretary or assistant secretary, dated the date hereof and certifying that attached thereto is a true and complete copy of its Bylaws prior to the adoption of the resolutions by its Board of Directors authorizing the execution, delivery and performance of this Loan Agreement; and certification that its Articles of Incorporation have not been amended since the date of the last amendment thereof, if any, indicated on the certificate of the Secretary of State; and (b) such other documents as the Bank may reasonably request.

4.3 No Default. At the date of each Advance, no Event of Default, or event which with the giving of notice or of the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing, and the representations and warranties of the Borrower contained herein shall remain true and correct as of such date, except to the extent that such representations and warranties relate to an earlier date. Each request for an Advance shall constitute the confirmation by the Borrower that at the date thereof the conditions contained in this Section 4.3 shall have been satisfied.

4.4 Other Conditions Precedent. On or before the date hereof, there shall have been delivered to the Bank all of the Underlying Loan Documents, financial statements, reports, appraisals, title commitments and other documents required by the Loan Commitment dated January 21, 1997.

SECTION 5. AFFIRMATIVE COVENANTS

From the date hereof and so long as the Loan shall be unpaid or unperformed, the Borrower will:

5.1 Existence and Properties. To the extent that the same are necessary for the proper and advantageous conduct of its business, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its corporate existence, rights, licenses and permits and comply with all laws and regulations applicable to it and conduct and operate its business in substantially the manner in which it is presently conducted and operated.

5.2 Insurance. Cause the Collateral, to be adequately insured at all times, by financially sound and reputable insurers, in an amount not less than the value thereof.

5.3 Obligations, Taxes and Laws. Pay or cause to be paid all indebtedness and obligations promptly and in accordance with their respective terms, including, without limitation, sales, use and personal property taxes as the same may be imposed upon the Borrower from time to time, and pay and discharge or cause to be paid and discharged promptly all taxes, assessments, and governmental charges or levies imposed upon it or in respect of its property before the same shall become in default, as well as all lawful claims for labor, materials, and supplies or otherwise which, if unpaid, might become a lien or charge upon such property or any part thereof, and timely comply with all applicable laws and governmental rules and regulations; provided, however, that the Borrower shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge, lien or claim, or timely comply with the laws and governmental rules so long as the validity thereof shall be contested by appropriate legal proceedings timely initiated and conducted in good faith, and (a) in the case of an unpaid tax, assessment, governmental charge or levy, lien, encumbrance, charge or claim, such proceedings shall be effective to suspend the collection thereof from the Borrower, and their properties; (b) neither such properties nor any part thereof, nor any interest therein would be in any danger of being sold, forfeited or lost; (c) in the case of a law and governmental rule or regulation, neither the Borrower nor the Bank would be in any danger of criminal liability for failure to comply therewith; (d) there shall have been established such reserve or other appropriate provision, if any, with respect thereto on the books of the entity involved, as shall be required by Generally Accepted Accounting Principles with respect to any such tax, assessment, charge, lien, claim, encumbrance, law, rule or regulation, so contested.

5.4 Maintenance of Books and Records. Keep true books of record and account in which full, true and correct entries will be made of all of Borrower's dealings and transactions and set up on the books of Borrower such reserves as may be required by Generally Accepted Accounting Principles.

5.5 Financial Statements and Reports. The Borrower shall maintain systems of accounting established and administered in accordance with Generally Accepted Accounting Principles. The Borrower will furnish to the Bank:

- (a) Within 120 days after the end of each fiscal year, audited balance sheets and statements of income, retained earnings for such year by Ernst & Young, LLP or other accounting firm acceptable to the Bank, together with copies of federal corporate tax returns within thirty (30) days of the filing thereof.
- (b) Within 30 days after the end of each month, deliver to the Bank the following financial statements certified by a designated corporate officer or the chief financial officer of the Borrower as accurate to the best of his/her knowledge upon due inquiry and investigation: (i) the Borrowing Base Certificate in the form attached hereto as Exhibit "A"; (ii) a Loan Receivables aging report by account customer (together with a list of the Contracts as back-up for the report) reflecting the past due status of any assigned Loan Receivable.
- (c) Concurrently with the statements furnished pursuant to paragraphs (a) and (b) of this Section 5.5, a certificate of an authorized officer of the Borrower certifying that to the best of his knowledge, no Event of Default hereunder, nor any event which with notice or lapse of time, or both, would constitute such an Event of Default, has occurred or, if such Event of Default or event has occurred, specifying the nature and extent thereof.
- (d) Promptly, from time to time, such other information regarding the operation, business, affairs and financial condition of the Borrower as the Bank may reasonably request.

5.6 Litigation Notice. Give the Bank prompt written notice of any action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency, the outcome of which might adversely affect the operations or financial condition of the Borrower.

5.7 Notice of Default. The Borrower shall give the Bank prompt written notice of any Event of Default hereunder, or any event which, with the passage of time or the giving of notice or both, would become such an Event of Default hereunder.

5.8 Access to Premises and Inspections. At all reasonable times and as often as the Bank may reasonably request, permit or arrange for any authorized representative designated by the Bank to visit and inspect the principal office and operations of the Borrower, any of the other offices or properties of the Borrower, including, without limitation, the Collateral, and its books, and to make extracts from such books and to discuss the affairs, finances and accounts of the Borrower with its chief financial officer or such other person as may be designated by the chief executive or chief operating officer of the Borrower.

5.9 Continued Assistance. Promptly, from time to time as the Bank may reasonably request, the Borrower shall perform such acts and execute, acknowledge, deliver, file, register, deposit or record any and all further instruments, agreements and documents whether to continue, preserve, renew, record or perfect the Bank's interests in the Collateral, as well as the priority thereof.

5.10 Title to Collateral. The Borrower shall own all of the Collateral constituting the security for the Loan. All such Collateral shall be and remain free and clear of all mortgages, pledges, liens, charges and other encumbrances of any nature whatsoever, except as granted to the Bank hereby or otherwise permitted herein.

SECTION 6. NEGATIVE COVENANTS

From the date hereof and so long as any of the Obligations shall be unpaid, the Borrower will not:

6.1 Negative Pledge. Either directly or indirectly, incur, create, assume or permit to exist any liens with respect to any property securing the Loan or be bound by or subject to any assessments and other similar governmental charges or claims except as provided in Section 5.3 of this Loan Agreement.

6.2 Organic Changes. Either directly or indirectly, (a) merge or consolidate the Borrower, with or into any other corporation; or (b) sell (in bulk), lease or otherwise dispose of all or substantially all of the property of the Borrower, unless the transferee or the lessee shall be acceptable to the Bank, which acceptance must in writing and issued by the Bank prior to any such sale, lease or other disposition, and such transferee shall have assumed the Loan.

6.3 Additional Indebtedness. Incur, create, assume or permit to exist any indebtedness on any of the Collateral securing the Loan other than the indebtedness to the Bank without the prior written consent of the Bank, except as may be permitted hereunder.

6.4 Settlements. Enter into any transaction that materially and adversely affects the Collateral referenced herein or the Borrower's abilities to repay the Loan other than in the normal course of business.

6.5 State Taxes. It is the intent of the parties hereto that this credit loan facility meets the requirements of F.S. ss.201.21 as an exempt transaction from documentary stamp tax under F.S. ss.201. The Advances are to be utilized only for refinance of secured loans with Collateral Documentation pledged by Borrower on which all excise taxes required to be paid by F.S. ss.201 have been fully paid. In the event it is determined that such taxes are payable, Borrower shall pay, if assessed, any and all documentary, intangible stamp or excise taxes now or hereafter payable in respect of this Loan Agreement, the Master Note or the loan documents or any modifications thereof and hold the Bank harmless with respect thereto. Borrower further agrees that the Bank may deduct from any Advance the amount of any such documentary or intangible stamp tax deemed payable with respect to such Advance, the decision of the Bank as to the amount thereof to be conclusive, absent manifest error. Borrower grants the Bank the authority to debit its accounts maintained with the Bank for any past due principal, interest, fees or other liabilities becoming due hereunder.

SECTION 7. EVENTS OF DEFAULT

7.1 Upon the occurrence of any of the following events of default (an "Event of Default") or at any time thereafter;

- (a) If any Borrowing Base Certificate requested by the Bank and delivered by Borrower indicates that the balance outstanding on the Loan exceeds the Borrowing Base of Eligible Loan Receivables, and Borrower fails to pledge additional Eligible Loan Receivables or to pay down the outstanding balance to bring it in compliance with the Borrowing Base within five (5) days after written notice from the Bank to Borrower;
- (b) Any representation or warranty made in this Loan Agreement or in any report, certificate, financial statement or other instrument furnished in connection herewith at any time shall prove to be false or misleading in any material respect as of the time when made;
- (c) Default in the payment of any monetary obligation under the Loan and such default shall continue unremedied for a period of ten (10) days;
- (d) Default with respect to any material obligation for borrowed money or otherwise of the Borrower if the effect of such default is to accelerate the maturity of such indebtedness or to permit the holder or obligee thereof (or a trustee on behalf of such holder or obligee) to cause such indebtedness to become due prior to its stated maturity, or such material indebtedness shall not be paid as and when due and payable (in each case, giving effect to any applicable grace periods);
- (e) Default in the due observance or performance of any covenant, condition or agreement contained in Sections 5 and 6 of this Loan Agreement;
- (f) Default in the due observance or performance of any covenant, condition or agreement to be observed or performed pursuant to the terms of this Loan Agreement (other than Sections 5 and 6 hereof), and such default shall continue unremedied for a period of 30 days after notice thereof;
- (g) The Borrower shall: (i) make an assignment for the benefit of creditors, file a petition in bankruptcy, petition or apply to any tribunal for

the appointment of a custodian, receiver or any trustee or shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or if there shall have been filed any such petition or application, or any such proceeding shall have been commenced against any of them in which an order for relief is entered or which remains undismissed for a period thirty (30) days or more; the Borrower, by any act or omission shall indicate consent to, approval of or fail to timely object to any such petition, application or proceeding or order for relief or for the appointment of a custodian, receiver or any trustee or shall suffer any such custodianship, receivership or trusteeship to continue undischarged for a period of thirty (30) days or more; (ii) generally not pay its debts as such debts become due or admit in writing its inability to pay its debts as they mature; or (iii) have concealed, removed, or permitted to be concealed or removed, any part of its properties or assets, with intent to hinder, delay or defraud its creditors or any of them, or made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law, or shall have made any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or shall have suffered or permitted, while solvent, any creditor to obtain a lien upon any Collateral, through legal proceedings or distraint, which is not vacated or "bonded off" within thirty (30) days from the date thereof; or (iv) be "insolvent" as such term is defined in the Bankruptcy Code, 11 U.S.C. ss.101(31).

7.2 Remedies. Upon the occurrence of any Event of Default, the Bank may, at its option, declare the indebtedness under the Master Note to be immediately due and payable. The Bank shall, at that time thereafter, have the remedies of a secured party under the Uniform Commercial Code of the State of Florida. In addition thereto, the Bank may take immediate possession of the Collateral or any part thereof wherever the same may be found. Borrower agrees to pay all costs and expenses of the Bank in the collection of the indebtedness under the Master Note and enforcement of the rights hereunder, including, without limitation, reasonable attorneys fees. The Bank may sell the Collateral in such manner and for such price as the Bank deems appropriate without any liability for any loss due to decrease in the market value of the Collateral during the period held. The Bank shall have the right to purchase all or any part of the Collateral at a public or private sale. If any notification of intended disposition of any of the Collateral is required by law, such notification shall be deemed reasonable and properly given if mailed, postage prepaid, at least five (5) days before any such disposition to any address of the Borrower appearing on the records of the Bank. The proceeds of any sale shall be applied in the following order: (1) to pay all costs and expenses of every kind for care, safekeeping, collection, sale, foreclosure, delivery, or otherwise respecting the Collateral (including expenses incurred in the protection of the Bank's title to or lien upon or right in any of the Collateral, expenses for legal services of any kind in connection therewith or in making any such sale or sales, insurance, commission for sale and guaranty); (2) to interest on all indebtedness of Borrower to the Bank under the Master Note; (3) to principal thereof, whether or not such indebtedness is due or accrued. The Bank may, at its discretion, apply any surplus to indebtedness of Borrower to third parties claiming a secondary security interest in the Collateral. Any remaining surplus shall be paid to the Borrower. Application of proceeds as between any particular indebtedness shall be in the absolute and sole discretion of the Bank. If the proceeds of any such sale or sales are insufficient to pay all indebtedness of Borrower with interest, Borrower agrees to pay the balance thereof on demand.

7.3 Default Rate. From and after the occurrence of an Event of Default, all Loan principal shall accrue interest at the Default Rate.

SECTION 8. NOTICES

All notices, requests, demands or other communications to or from the parties hereto shall be deemed to have been duly given and made (a) in the case of a letter sent other than by mail, when the letter is delivered to the party to whom it is addressed, (b) in the case of a telegram or telecopied document, when the telegram or telecopy is sent, (c) in the case of a letter sent by mail, three (3) days from the day on which the letter is deposited in a United States post office, certified mail, return receipt requested, and addressed as follows:

If to the Borrower: Litchfield Financial Corporation

789 Main Road
Stamford, VT 05352

If to the Bank: Republic Bank
Attn: Commercial Lending Department
111 Second Avenue N.E.
St. Petersburg, FL 33701

with a copy to: Fisher & Sauls, P.A.
Attention: Kenneth E. Thornton
100 Second Avenue South
Suite 701
St. Petersburg, Florida 33701

8.1 Substitution and Release. The Bank shall release all Underlying Loan Documents held as Collateral for any Advance by the Bank upon payment in full of such Advance. The Bank may allow, by giving written notice of acceptance to Borrower, any Collateral to be withdrawn or released or exchanged, from time to time, for other property which may likewise be successively withdrawn, released, or exchanged, and the Bank may hold all substituted properties subject to each and all terms of this Loan Agreement, all without liability on the part of the Bank.

SECTION 9. MISCELLANEOUS

9.1 Costs. The Borrower hereby agrees to pay to the Bank all costs and expenses of every kind and description incurred by the Bank in connection with the enforcement and protection in any legal or equitable proceeding of the rights of the Bank in connection with this Loan Agreement, and in connection with any action or claim under this Loan Agreement, or in any wise related thereto, including, without limitation, the reasonable fees and disbursements of counsel to the Bank. In the event of litigation arising out of or related to this agreement, the prevailing party shall be entitled to reasonable fees and costs of its counsel.

9.2 Severability. The provisions of this Loan Agreement are severable, and if any provision hereof shall be held by any court of competent jurisdiction to be unenforceable, such holding shall not affect or impair any other provision hereof.

9.3 GOVERNING LAW. THIS LOAN AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF FLORIDA WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICT OF LAWS.

9.4 Interpretation. To the extent not otherwise provided for hereby, the course of dealing by and between the Bank and the Borrower shall control in the determination and interpretation of the rights of the parties hereto. Further, to the extent not otherwise provided for hereby nor by or inconsistent with the course of dealing by and between the parties hereto, the usage of trade in transactions substantially similar to the transactions contemplated herein shall control in the determination and interpretation of the rights of the parties hereto.

9.5 Headings. The name of this Loan Agreement, as well as Section headings used herein, are for conveniences of reference only and are not to affect the construction of, or be taken into consideration in interpreting this Loan Agreement.

9.6 Terms. Any term used herein shall be equally applicable to both the singular and plural forms.

9.7 JURY TRIAL. THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS LOAN AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREIN. FURTHER THE BORROWER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF THE BANK NOR THE BANK'S COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF SUCH LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION. FINALLY, THE BORROWER ACKNOWLEDGES THAT THE BANK HAS BEEN INDUCED TO ENTER INTO THIS LOAN AGREEMENT BY, INTER ALIA, THE PROVISIONS OF THIS SECTION 9.7.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be executed and the respective seals affixed hereto all as of the day and year first above written.

"BORROWER"

WITNESSETH:

LITCHFIELD FINANCIAL CORPORATION,
a Massachusetts corporation

/s/Amy S. Backiel

By: /s/Heather A.Sica

Signature of Witness
Amy S. Backiel

Heather A. Sica, as its
Executive Vice President

Print or Type Name of Witness
/s/Judy Koloc

(CORPORATE SEAL)

Signature of Witness
Judy Koloc

Print or Type Name of Witness
As to Borrower

"BANK"

REPUBLIC BANK, a Florida banking corporation

Signature of Witness

(Print or type name of Witness)

Signature of Witness

(Print or type name of Witness)
As to Bank

By: /s/James G. Grimaldi

James G. Grimaldi,
As its Vice President

(CORPORATE SEAL)

**102799.2STATE OF VERMONT
COUNTY OF Bennington**

The foregoing instrument was acknowledged before me this 19th day of March, 1997 by HEATHER A. SICA, who is personally known to me or who produced a New York State Driver's License as identification, as Executive Vice President of LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation, on behalf of the corporation, as Borrower.

My Commission Expires:

/s/Jane E.Ruzicka

Notary Public-State of Vermont
Jane E.Ruzicka

(Print or Type Name of Notary)

**STATE OF FLORIDA
COUNTY OF PINELLAS**

The foregoing instrument was acknowledged before me this 21st day of March, 1997, by JAMES G. GRIMALDI, as Vice President of REPUBLIC BANK, a Florida banking corporation, on behalf of the corporation, who is personally known to me or who produced a Florida State Driver's License as identification.

Notary Public - State of Florida My Commission Expires:

(Print or type name of Notary)

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	MAR 31 1997
CASH	29,413
SECURITIES	28,285
RECEIVABLES	103,864
ALLOWANCES	4,626
INVENTORY	0
CURRENT ASSETS	0
PP&E	0
DEPRECIATION	0
TOTAL ASSETS	169,029
CURRENT LIABILITIES	0
BONDS	46,995
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	55
OTHER SE	44,462
TOTAL LIABILITY AND EQUITY	169,029
SALES	0
TOTAL REVENUES	6,407
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	0
LOSS PROVISION	435
INTEREST EXPENSE	2,394
INCOME PRETAX	1,862
INCOME TAX	717
INCOME CONTINUING	1,145
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,145
EPS PRIMARY	.20
EPS DILUTED	.20

End of Filing

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