LITCHFIELD FINANCIAL CORP /MA

FORM 10-K
(Annual Report)

Filed 04/01/99 for the Period Ending 12/31/98

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

LITCHFIELD FINANCIAL CORP /MA

FORM 10-K
(Annual Report)

Filed 3/31/1999 For Period Ending 12/31/1998

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-K

ANNUAL REPORT PURSUANT to SECTION 13 or 15(d) of THE SECURITIES EXCHANGE ACT of 1934

For the fiscal year ended DECEMBER 31, 1998

Commission File Number: 0-19822

LITCHFIELD FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

MASSACHUSETTS

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                    04-3023928
                              (State or other jurisdiction
(I.R.S. Employer Identification No.)
                         of incorporation or organization)

 430 MAIN STREET, WILLIAMSTOWN, MA                            01267
(Address of principal executive offices)                     (Zip Code)

Registrant's telephone number, including area code: (413) 458-1000
    Securities registered pursuant to Section 12(b) of the Act: None
      Securities registered pursuant to Section 12(g) of the Act:


 Common Stock ($.01 par value)
       (Title of class)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. [X]

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 15, 1999 was $117,571,000 (based on the closing price of the Company's common stock on The Nasdaq Stock Market's National Market.)

The number of outstanding shares of common stock as of March 15, 1999 was 6,886,873 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual stockholders report for the year ended December 31, 1998 are incorporated by reference into Parts I and II.

Portions of the proxy statement for the Annual Meeting of Stockholders to be held April 23, 1999 are incorporated by reference into Part III.

LITCHFIELD FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 1998

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FORWARD-LOOKING STATEMENTS

Except for the historical information contained or incorporated by reference in this Form 10-K, the matters discussed or incorporated by reference herein are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risk factors set forth under "Risk Factors" as well as the following: general economic and business conditions; industry trends; changes in business strategy or development plans; availability and quality of management; and availability, terms and deployment of capital. Special attention should be paid to such forward-looking statements including, but not limited to, statements relating to (i) the Company's ability to execute its growth strategies and to realize its growth objectives and (ii) the Company's ability to obtain sufficient resources to finance its working capital needs and provide for its known obligations.

PART I

Form 10-K

Item 1. BUSINESS

Overview

Litchfield Financial Corporation (the "Company") is a diversified finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans, mortgages and construction loans and tax lien certificates, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains on sales of loans and (iii) servicing and other income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, 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.

Business Strategy

The Company was founded in November 1988. The Company's strategy has been to build its serviced portfolio (the "Serviced Portfolio") consisting of the principal amount of loans serviced by or on behalf of the Company (except loans participated without recourse to the Company) by acquiring loan portfolios from rural land dealers, resort developers and financial institutions and by providing loans to such dealers and developers and other businesses secured by consumer receivables. The Company also provides A&D Loans in order to have the opportunity to finance additional receivables generated by these A&D Loans. As part of its business and financing strategy, the Company seeks niche markets where its underwriting expertise and ability to provide value-added services enable it to distinguish itself from its competitors and earn an attractive rate of return on its invested capital. Initially, the Company pursued this strategy by financing consumer Land Loans through a land dealer network and portfolio acquisitions. Subsequently, the Company extended its strategy to financing consumer VOI Loans and providing Hypothecation Loans to land dealers and resort developers. In 1995, the Company significantly expanded its financing of VOI Loans when it acquired approximately $41.5 million of VOI related loans and assets as part of its purchase of the Government Employees Financial Corporation ("GEFCO") portfolio. In 1997, the Company expanded its financing of Hypothecation Loans to other finance companies ("Finanical Services Loans") secured by other types of collateral. The Company expects to continue to expand its Financial Services lending. These loans may be larger than the Company's average Hypothecation Loans and may provide the Company an option to take an equity position in the borrower. The Company's objective is to identify other lending opportunities or lines of business to diversify its portfolio as it did with VOI Loans and Hypothecation Loans.

Management believes that the marketing and operating strategies implemented by the Company have enabled it to provide financing to parties whose needs have been historically underserved in a highly fragmented and inefficient market. In doing so, the Company has increased its earnings per share during each of its full years of operations.

Characteristics of the Serviced Portfolio, Loan Purchases and Originations

The following table shows the growth in the diversity of the Serviced Portfolio from primarily Purchased Loans to a mix of Purchased Loans, Hypothecation Loans, A&D Loans and Other Loans:

	December 31,				
	1998	1997	1996	1995	1994
Purchased Loans..........	38.4%	56.6%	67.1%	81.6%	85.3%
Hypothecation Loans......	35.2	26.9	20.7	12.5	9.0
A&D Loans................	11.2	13.7	8.7	3.1	3.3
Other Loans..............	15.2	2.8	3.5	2.8	2.4
Total.........	100.0%	100.0%	100.0%	100.0%	100.0%

The following table shows the growth in the diversity of the Company's originations from primarily Purchased Loans to a mix of Purchased Loans, Hypothecation Loans, A&D Loans and Other Loans:

	December 31,				
	1998	1997	1996	1995	1994
Purchased Loans.............	14.9%	30.3%	49.9%	71.4%	67.6%
Hypothecation Loans.........	48.6	37.1	29.6	20.9	22.2
A&D Loans...................	10.2	24.0	14.4	3.1	6.0
Other Loans.................	26.3	8.6	6.1	4.6	4.2
Total.............	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Purchased Loans

The Company provides indirect financing to consumers through a large number of experienced land dealers and resort developers from which it regularly purchases Land and VOI Loans. The land dealers and resort developers make loans to consumers generally using the Company's standard forms and subject to the Company's underwriting criteria. The Company then purchases such loans from the land dealer or resort developer on an individually approved basis in accordance with its credit guidelines.

Each land dealer and resort developer from whom the Company purchases loans is interviewed by the Company and approved by its credit committee. Management evaluates each land dealer's and resort developer's experience, financial statements and credit references and inspects a substantial portion of the land dealer's and resort developer's inventory of land or VOIs prior to approval of loan purchases.

In order to enhance the creditworthiness of loans purchased from land dealers and resort developers, the Company typically requires land dealers and resort developers to guarantee payment of the loans and typically retains a portion of the amount payable by the Company to each land dealer and resort developer on the purchase of the loan. The retained portion, or reserve, is released to the land dealer or resort developer as the related loan is repaid.

Prior to purchasing Land or VOI Loans, the Company evaluates the credit and payment history of each borrower in accordance with its underwriting guidelines, performs borrower interviews on a sample of loans, reviews the documentation supporting the loans for completeness and obtains an appropriate opinion from local legal counsel. The Company purchases only those loans which meet its credit standards.

The Company also purchases portfolios of seasoned loans primarily from land dealers and resort developers. The land dealers or resort developers generally guarantee the loans sold and the Company generally withholds a reserve as described above. Management believes that the portfolio acquisition program is attractive to land dealers and resort developers because it provides them with liquidity to purchase additional inventory. The Company also purchases portfolios of seasoned loans from financial institutions and others. Sellers generally do not guarantee such loans, but estimated loan losses are considered in establishing the purchase price.

In evaluating such seasoned portfolios, the Company conducts its normal review of the borrower's documentation, payment history and underlying collateral. However, the Company may not always be able to reject individual loans.

The Company's portfolio of Purchased Loans is secured by property located in 39 states.

	Principal Amount of Loans December 31,				
	1998	1997	1996	1995	1994
Southwest.................	32%	30%	26%	16%	19%
South.....................	30	31	31	31	37
West......................	19	17	20	20	3
Mid-Atlantic..............	8	10	10	16	16
Northeast.................	11	12	13	17	25
Total................	100%	100%	100%	100%	100%

a. Land Loans

Dealers from whom the Company purchases Land Loans are typically closely-held firms with annual revenues of less than $3.0 million. Dealers generally purchase large rural tracts (generally 100 or more acres) from farmers or other owners and subdivide the property into one to twenty acre parcels for resale to consumers. Generally, the subdivided property is not developed significantly beyond the provision of graded access roads. In recreational areas, sales are made primarily to urban consumers who wish to use the property for a vacation or retirement home or for recreational purposes such as fishing, hunting or camping. In other rural areas, sales are more commonly made to persons who will locate a manufactured home on the parcel. During the year ended December 31, 1998, the Company aquired approximately $53.7 million of Land Loans. The aggregate principal amount of Land Loans purchased from individual dealers during the year ended December 31, 1998 varied from a low of approximately $9,000 to a high of approximately $4.7 million. As of December 31, 1998, the five largest dealers accounted for approximately 20.6% of the principal amount of the Land Loans in the Serviced Portfolio, and no single dealer accounted for more than 5.4%.

As of December 31, 1998, 34.3% of the Serviced Portfolio consisted of Land Loans with an average principal balance of approximately $13,100. The following table sets forth as of December 31, 1998, the distribution of Land Loans in the Company's Serviced Portfolio:

Principal Balance	Principal Amount	Percentage of Principal Amount	Number of Loans	Percentage of Number of Loans
Less than $10,000.........	$ 28,936,000	18.1%	5,581	45.7%
$10,000-$19,999...........	61,138,000	38.2	4,287	35.1
$20,000 and greater........	70,024,000	43.7	2,343	19.2
Total..............	$160,098,000	100.0%	12,211	100.0%

As of December 31, 1998, the weighted average interest rate of the Land Loans included in the Company's Serviced Portfolio was 12.0% and the weighted average remaining maturity was 12.0 years. The following table sets forth as of December 31, 1998 the distribution of interest rates payable on the Land Loans:

Interest Rate	Principal Amount	Percentage of Principal Amount
Less than 12.0%..........................	$ 55,332,000	34.6%
12.0%-13.9%..............................	81,256,000	50.7
14.0% and greater........................	23,510,000	14.7
Total..............................	$160,098,000	100.0%

As of December 31, 1998, the Company's Land Loan borrowers resided in 50 states, the District of Columbia and ten territories or foreign countries.

b. VOI Loans

The Company purchases VOI Loans from various resort developers. The Company generally targets small to medium size resorts with completed amenities and established property owners associations. These resorts participate in programs that permit purchasers of VOIs to exchange their timeshare intervals for timeshare intervals in other resorts around the world. During the year ended December 31, 1998, the Company acquired approximately $2.4 million of VOI Loans. As of December 31, 1998, the five largest developers accounted for approximately 35.1% of the principal amount of the VOI Loans in the Serviced Portfolio, and no single developer accounted for more than 9.4%.

As of December 31, 1998, 4.1% of the Serviced Portfolio consisted of VOI Loans, with an average principal balance of approximately $3,400. The following table sets forth as of December 31, 1998 the distribution of VOI Loans:

Principal Balance	Principal Amount	Percentage of Principal Amount	Number of Loans	Percentage of Number of Loans
Less than $4,000.......	$ 7,519,000	39.3%	3,615	64.8%
$4,000-$5,999..........	6,530,000	34.2	1,316	23.6
$6,000 and greater.....	5,070,000	26.5	649	11.6
Total.............	$19,119,000	100.0%	5,580	100.0%

As of December 31, 1998, the weighted average interest rate of the VOI Loans included in the Company's Serviced Portfolio was 14.6% and the weighted average remaining maturity was 3.7 years. The following table sets forth as of December 31, 1998 the distribution of interest rates payable on the VOI Loans:

Interest Rate	Principal Amount	Percentage of Principal Amount
Less than 14.0%.....................	$ 8,147,000	42.6%
14.0%-15.9%.........................	4,482,000	23.4
16.0% and greater...................	6,490,000	34.0
Total.........................	$19,119,000	100.0%

As of December 31, 1998, the Company's VOI borrowers resided in 50 states, the District of Columbia and four territories or foreign countries.

(2) Hypothecation Loans

The Company extends Hypothecation Loans to land dealers and resort developers and other businesses secured by receivables. The Company has expanded its marketing of Hypothecation Loans to include loans to other finance companies secured by other types of collateral. These loans may be larger than the Company's average Hypothecation Loans and may provide the Company with an option to take an equity position in the borrower. During the year ended December 31, 1998, the Company extended or acquired approximately $182.2 million of Hypothecation Loans, of which $26.5 million, or 14.5%, were secured by Land Loans, $84.2 million, or 46.2%, were secured by VOI Loans and $71.5 million, or 39.3%, were secured by other types of collateral such as tax lien certificates, accounts receivable and mortgages.

The Company typically extends Hypothecation Loans based on advance rates of 75% to 90% of the eligible receivables which serve as collateral. The Company's Hypothecation Loans are typically made at variable rates based on the prime rate of interest plus 2% to 4%. As of December 31, 1998, the Company had $164.5 million of Hypothecation Loans outstanding, none of which were 31 days or more past due. During the three months ended March 31, 1998, the Company acquired a $17.0 million participation interest in a Hypothecation Loan from another financial institutuion. As planned, in May of 1998, the Company purchased the underlying receivables, which the Company reclassified as Other Loans. The proceeds of the receivables purchased were applied to pay off the Company's participation interest. At December 31, 1998, Hypothecation Loans ranged in size from less than $500 to $21.5 million with an average principal balance of $1,678,000. The five largest Hypothecation Loans represented 15.5% of the Serviced Portfolio.

(3) A&D Loans

The Company also makes A&D Loans to dealers and developers for the acquisition and development of rural and timeshare resorts in order to finance additional receivables generated by the A&D Loans. During the year ended December 31, 1998, the Company made $38.2 million of A&D Loans to land dealers and resort developers, of which $13.3 million, or 34.9%, were secured by land and $24.9 million, or 65.1%, were secured by resorts under development.
The Company generally makes A&D Loans to land dealers and resort developers based on loan to value ratios of 60% to 80% at variable rates based on the prime rate plus 2% to 4%. As of December 31, 1998, the Company had $52.3 million of A&D Loans outstanding, none of which were 31 days or more past due. A&D Loans are secured by timeshare resort developments and rural land subdivisions in 16 states and one territory. A&D Loans range in size from $1,700 to $9.5 million with an average principal balance of $780,000. The five largest A&D Loans represent 4.7% of the Serviced Portfolio.

(4) Other Loans

At December 31, 1998, Other Loans consisted primarily of consumer home equity loans, mortgage and construction loans, other secured commercial loans and tax lien certificates. Historically, the Company has made or acquired certain other secured and unsecured loans to identify additional lending opportunities or lines of business for possible future expansion as it did with VOI Loans and Hypothecation Loans. In May of 1998, the Company purchased 232 builder construction loans totaling $32.7 million, a portion of which had previously been collateral for the Hypothecation Loan in which the Company owned a participation interest. As of December 31, 1998, the Company had 176 of the builder construction loans totaling $33.9 million. In October 1998, the Company began purchasing tax lien certificates and held $21.2 million of such certificates at December 31, 1998. The Company had $71.0 million of Other Loans, 1.94% of which were 91 days or more past due. Other Loans range in size from less than $500 to $875,000 with an average principal balance of $23,200. The five largest Other Loans represent 0.8% of the Serviced Portfolio.

Loan Underwriting

The Company has established loan underwriting criteria and procedures designed to reduce credit losses on its Serviced Portfolio. The loan underwriting process includes reviewing each borrower's credit history. In addition, the Company's underwriting staff routinely conduct telephone interviews with a sample of borrowers. The primary focus of the Company's underwriting is to assess the likelihood that the borrower will repay the loan as agreed by examining the borrower's credit history through credit reporting bureaus.

The Company's loan policy is to purchase Land and VOI Loans from $3,000 to $50,000. On a case by case basis, the Company will also consider purchasing such loans in excess of $50,000. As of December 31, 1998, the Company had 154 Land Loans exceeding $50,000 representing 2.3% of the number of such loans in the Serviced Portfolio, for a total of $10.9 million. There were no VOI Loans exceeding $50,000 as of December 31, 1998. The Company will originate Hypothecation Loans up to $15 million and A&D Loans up to $10 million. From time to time, the Company may have an opportunity to originate larger Hypothecation Loans or A&D Loans in which case the Company would seek to participate such loans with other financial institutions. Construction loans greater than $200,000 and any other loans greater than $100,000 must be approved by the Credit Committee which is comprised of the Chief Executive Officer, three Executive Vice Presidents and a Senior Vice President.

Collections and Delinquencies

Management believes that the relatively low delinquency rate for the Serviced Portfolio is attributable primarily to the application of its underwriting criteria, as well as to dealer guarantees and reserves withheld from dealers and developers. No assurance can be given that these delinquency rates can be maintained in the future.

Collection efforts are managed and delinquency information is analyzed at the Company's headquarters. Unless circumstances otherwise dictate, collections are generally made by mail and telephone. Collection efforts begin when an account is seven days past due, at which time the Company sends out a late notice. When an account is fifteen days past due, the Company attempts to contact the borrower to determine the reason for the delinquency and to attempt to cause the account to become current. If the status of the account continues to deteriorate, an analysis of the account is performed by the collection manager to determine the appropriate action. When the loan is 90 days past due in accordance with its original terms and it is determined that the amounts cannot be collected from the dealer or developer guarantees or reserves, the loan is generally placed on a non-accrual status and the collection manager determines the action to be taken. The determination of how to work out a delinquent loan is based upon many factors, including the borrower's payment history and the reason for the current inability to make timely payments. When a guaranteed loan becomes 60 days (90 days in some cases) past due, in addition to the Company's collection procedures, the Company generally obtains the assistance of the dealer or developer in collecting the loan.

The Company extends a limited number of its loans for reasons the Company considers acceptable such as temporary loss of employment or serious illness. In order to qualify for a one to three month extension, the customer must make three timely payments without any intervention from the Company. For extensions of four to six months, the customer must make four to six timely payments, respectively, without any intervention from the Company. The Company will not extend a loan more than two times for an aggregate of six months over the life of the loan. The Company has extended approximately 0.9% of its loans through December 31, 1998. The Company does not generally modify any other loan terms such as interest rates or payment amounts.

Regulations and practices regarding the rights of the mortgagor in default vary greatly from state to state. To the extent permitted by applicable law, the Company collects late charges and return-check fees and records these items as additional revenue. Only if a delinquency cannot otherwise be cured will the Company decide that foreclosure is the appropriate course of action. If the Company determines that purchasing a property securing a mortgage loan will minimize the loss associated with such defaulted loan, the Company may accept a deed in lieu of foreclosure, take legal action to collect on the underlying note or bid at the foreclosure sale for such property.

Serviced Portfolio

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees, for the Serviced Portfolio:

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Serviced Portfolio...	$466,912,000	$304,102,000	$242,445,000	$176,650,000	$105,013,000
Delinquent loans (1).	4,456,000	3,642,000	3,255,000	3,062,000	981,000
Delinquency as a Percentage of Serviced Portfolio.	0.95%	1.20%	1.34%	1.73%	.93%

(1) Delinquent loans are those which are 31 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

Land Loans

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees, for Land Loans in the Serviced Portfolio:

	Year Ended December 31, 1998	1997	1996	1995	1994
Land Loans in Serviced Portfolio...	$160,098,000	$142,828,000	$119,370,000	$97,266,000	$90,502,000
Delinquent Land Loans (1)............	2,728,000	2,453,000	1,920,000	1,059,000	981,000
Delinquency as a Percentage of Land Loans in Serviced Portfolio...	1.70%	1.72%	1.61%	1.09%	1.08%

(1) Delinquent loans are those which are 31 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

VOI Loans

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees, for VOI Loans in the Serviced Portfolio:

	Year Ended December 31, 1998	1997	1996	1995	1994
VOI Loans in Serviced Portfolio.........	$19,119,000	$29,232,000	$43,284,000	$46,700,000	$2,851,000
Delinquent VOI Loans (1).........	350,000	739,000	1,316,000	1,958,000	---
Delinquency as a Percentage of VOI Loans in Serviced Portfolio.........	1.83%	2.53%	3.04%	4.19%	---

(1) Delinquent loans are those which are 31 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

Hypothecation, A&D and Other Loans

The Company did not have any delinquent Hypothecation Loans or A&D Loans for the years ended December 31, 1993 through December 31, 1998. The Company did not have significant amounts of delinquent Other Loans for the years ended December 31, 1993 through December 31, 1996. At December 31, 1997, there were $8.5 million of Other Loans of which $450,000 or 5.3% were 31 days or more past due and not covered by dealer/developer reserves or guarantees and not included in other real estate owned. At December 31, 1998, there were $71.0 million of Other Loans of which $1,378,000 or 1.94% were 31 days or more past due and not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

Allowance for Loan Losses and Estimated Recourse Obligations, Net Charge-offs and Dealer Reserves

The following is an analysis of the total allowances for all loan losses:

	Year Ended December 31, 1998	1997	1996	1995	1994
Allowance, beginning of year	$5,877,000	$4,528,000	$3,715,000	$1,264,000	$1,064,000
Net charge-offs of Uncollectible accounts	(2,239,000)	(2,010,000)	(1,965,000)	(946,000)	(359,000)
Provision for loan losses	1,532,000	1,400,000	1,954,000	890,000	559,000
Allocation of purchase Adjustment (1)	1,537,000	1,959,000	824,000	2,507,000	---
Allowance, end of year	$6,707,000	$5,877,000	$4,528,000	$3,715,000	$1,264,000

(1) Represents allocation of purchase adjustment related to purchase of certain non-guaranteed loans.

The following is an analysis of net charge-offs by major loan and collateral types experienced by the Company:

	Year Ended December 31, 1998	1997	1996	1995	1994
Land Loans................	$1,358,000	$ 986,000	$ 669,000	$546,000	$359,000
VOI Loans.................	556,000	939,000	1,284,000	45,000	---
Hypothecation Loans.......	---	---	---	---	---

A&D Loans.................	---	(2,000)	(8,000)	352,000	---
Other Loans...............	325,000	87,000	20,000	3,000	---
Total net charge-offs.....	$2,239,000	$2,010,000	$1,965,000	$946,000	$359,000
Net charge-offs as a percentage of the average Serviced Portfolio.................	.58%	.74%	.94%	.67%	.38%

As part of the Company's financing of Land and VOI Loans, the Company enters into arrangements with most land dealers and resort developers whereby the Company retains a portion of the amount payable to a dealer when purchasing a Land or a VOI Loan to protect the Company from potential losses assocciated with such loans and uses the amount retained to absorb loan losses. The Company negotiates the amount of the reserves with the land dealers and resort developers based upon various criteria, two of which are the financial strength of the land dealer or resort developer and the credit risk associated with the loans being purchased. Dealer reserves for Land Loans were $8,219,000, $8,321,000 and $7,555,000 at December 31, 1998, 1997 and 1996, respectively. Developer reserves for VOI Loans were $1,760,000, $2,299,000 and $3,072,000 at December 31, 1998, 1997 and 1996, respectively. Most dealers and developers provide personal and, when relevant, corporate guarantees to further protect the Company from loss.

Loan Servicing and Sales

The Company retains the right to service all loans it purchases or originates. Servicing includes collecting payments from borrowers, remitting payments to investors who have purchased the loans, accounting for principal and interest, contacting delinquent borrowers and supervising foreclosure and bankruptcies in the event of unremedied defaults. Substantially all servicing results from the origination and purchase of loans by the Company, and the Company has not historically purchased loan servicing rights except in connection with the purchase of loans. Servicing rates generally approximate .5% to 2% of the principal balance of a loan.

Historically, the Company subcontracted the servicing of its loans to an unaffiliated third party. In July 1998, the Company resumed certain customer service and collection functions. The unaffiliated third party continues to provide certain data processing and payment processing functions. The Company retains responsibility for servicing all loans as a master servicer.

In 1990, the Company began privately placing issues of pass-through certificates evidencing an undivided beneficial ownership interest in pools of mortgage loans which have been transferred to trusts. The principal and a portion of the interest payments on the loans transferred to the trust are collected by the Company as the servicer of the loans remitted to the trust for the benefit of the investors, and then distributed by the trust to the investors in the pass-through certificates.

As of December 31, 1998, the Company sold or securitized a total of approximately $493.0 million of loans at face value. In certain of the Company's issues of pass-through certificates, credit enhancement was achieved by dividing the issue into a senior portion which was sold to the investors and a subordinated portion which was retained by the Company. In certain other of the Company's private placements, credit enhancement was achieved through cash collateral.

If borrowers default in the payment of principal or interest on the loans underlying these issues of pass-through certificates, losses would be absorbed first by the subordinated portion or cash collateral account retained by the Company and might, therefore, have to be charged against the estimated recorse obligations to the extent dealer guarantees and reserves are not available.

The Company also has a $150.0 million revolving line of credit and sale facility for its Land Loans as part of an asset backed commercial paper facility with a multi-seller commercial paper conduit. The facility expires in June 2001. As of December 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was $137.5 million. The Company has an additional revolving line of credit and sale facility for its VOI Loans of $25.0 million with another multi-seller commercial paper conduit. The facility expires in March 2000. As of December 31, 1998, the outstanding aggregate balance of the sold loans under the facility was $10.6 million.

Marketing and Advertising

The Company markets its program to rural land dealers and resort developers through brokers, referrals, dealer and developer solicitation, and targeted direct mail. The Company employs three marketing executives based in Lakewood, Colorado, five marketing executives based in Williamstown, Massachusetts and two marketing executives based in Hoover, Alabama. In the last five years the Company has closed loans with over 325 different dealers and developers.

Management believes that the Company benefits from name recognition as a result of its referral, advertising and other marketing efforts. Referrals have been the strongest source of new business for the Company and are generated in the states in which the Company operates by dealers, brokers, attorneys and financial institutions. Management and marketing representatives also conduct seminars for dealers and brokers and attend trade shows to improve awareness and understanding of the Company's programs.

Regulation

The Company is licensed as a lender, mortgage banker or mortgage broker in 23 of the states in which it operates, and in those states its operations are subject to supervision by state authorities (typically state banking or consumer credit authorities). Expansion into other states may be dependent upon a finding of financial responsibility, character and fitness of the Company and various other matters. The Company is generally subject to state regulations, examination and reporting requirements, and licenses are revocable for cause. The Company is subject to state usury laws in all of the states in which it operates.

The consumer loans purchased or financed by the Company are subject to the Truth-in-Lending Act. The Truth-in-Lending Act contains disclosure requirements designed to provide consumers with uniform, understandable information with respect to the terms and conditions of loans and credit transactions in order to give them the ability to compare credit terms. Failure to comply with the requirements of the Truth-in-Lending Act may give rise to a limited right of rescission on the part of the borrower. The Company believes that its purchase or financing activities are in substantial compliance in all material respects with the Truth-in-Lending Act.

Origination of the loans also requires compliance with the Equal Credit Opportunity Act of 1974, as amended ("ECOA"), which prohibits creditors from discriminating against applicants on the basis of race, color, sex, age or marital status. Regulation B promulgated under ECOA restricts creditors from obtaining certain types of information from loan applicants. It also requires certain disclosures by the lender regarding consumer rights and requires lenders to advise applicants of the reasons for any credit denial. In instances where the applicant is denied credit or the interest rate charged increases as a result of information obtained from a consumer credit agency, another statute, the Fair Credit Reporting Act of 1970, as amended, requires the lenders to supply the applicant with a name and address of the reporting agency.

Competition

The finance business is highly competitive, with competition occurring primarily on the basis of customer service and the term and interest rate of the loans. Traditional competitors in the finance business include commercial banks, credit unions, thrift institutions, industrial banks and other finance companies, many of which have considerably greater financial, technical and marketing resources than the Company. There can be no assurance that the Company will not face increased competition from existing or new financial institutions or finance companies. In addition, the Company may enter new lines of business that may be highly competitive and may have competitors with greater financial resources than the Company.

The Company believes that it competes on the basis of providing competitive rates and prompt, efficient and complete service, and by emphasizing customer service on a timely basis to attract borrowers whose needs are not met by traditional financial institutions.

Employees

As of December 31, 1998, the Company had 102 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its relations with its employees to be good.

Risk Factors

General Business Risks. The Company's business is subject to various business risks. The level of the Company's revenues is dependent upon demand for the type of loans purchased, sold and serviced by the Company from both potential borrowers and investors. Future declines in real estate values, changes in prevailing interest rates and changes in the availability of attractive returns on alternative investments each could make loans of the type originated and purchased by the Company less attractive to borrowers and investors.

Funding and Liquidity. The Company has a constant need for working capital to fund its lending, purchasing and securitization activities and, as a result, generally has experienced negative cash flows from operations. Historically, the Company has funded any negative cash flows from operations by borrowing under secured lines of credit and issuing long-term debt and equity securities. The Company's lines of credit are renewable on one to three year bases. The Company had secured lines of credit totaling $116.0 million with five financial institutions as of December 31, 1998. To date, the Company has issued $152.8 million of long-term debt and has publicly issued $46.3 million of equity securities.

The Company also has a $150.0 million revolving line of credit and sale facility as part of an asset backed commercial paper facility with a multi-seller commercial paper conduit. The facility expires in June, 2001. As of December 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was $137.5 million. The Company has an additional revolving line of credit and sale facility of $25.0 million with another multi-seller commercial paper conduit. The facility expires in March 2000. As of December 31, 1998, the outstanding aggregate balance of the sold or pledged loans under the facility was $10.6 million.

There can be no assurance that the Company will continue to be able to obtain financing or raise capital on terms satisfactory to the Company. To the extent the company cannot raise additional funds, it could have a material adverse impact on its operations and its ability to repay the Notes.

Impact of Economic Cycles. The business risks associated with the Company's business become more acute in an economic slowdown. Such an environment is generally characterized by decreased demand for rural and vacation real estate and VOIs and declining real estate values in many areas of the country. Delinquencies, foreclosures and loan losses generally increase during economic slowdowns or recessions, and any such future slowdowns could adversely affect future operations of the Company.

Interest Rate Risk. The Company's interest and fees on loans, gain on sale of loans and interest expense are affected by changes in interest rates. The Company could be adversely affected by interest rate increases if its variable rate liabilities exceed its variable rate assets or if the rates on its variable rate liabilities increase sooner or to a greater extent than the rates on its variable rate assets.

The Company seeks to mitigate a portion of its interest rate risk by attempting to match fixed and variable rate assets and liabilities, instituting interest rate floors and by entering into interest rate swaps on certain of its variable rate assets, and purchasing interest rate caps on certain of its variable rate liabilities.
There can be no assurance that the Company's attempts to mitigate its interest rate risk will be effective.

Competition. The financing of VOIs is highly competitive and many of the Company's competitors have greater financial resources. In addition, the Company may enter new lines of business that may be highly competitive and may have competitors with greater financial resources than the Company.

Credit Risks. The Company's loans are subject to delinquency and default risk. General downturns in the economy and other factors beyond the Company's control may have an adverse effect on the Company's delinquency and default rates. The Company's A&D Loans and, to a lesser extent, its Hypothecation Loans have a greater concentration of credit risk due to their larger size and, in the case of A&D Loans, their development and marketing risk.

The Company's VOI business is subject to certain risks associated with VOI ownership. Although individual VOI owners are obligated to make payments under their notes irrespective of any defect in, damage to, or change in conditions of the vacation resort (such as erosion, construction of adjacent or nearby properties, or environmental problems) or of any breach of contract by the property owners association to provide certain services to the VOI borrowers (including any such breach resulting from a destruction of the resort) or of any other loss of benefits of ownership of their unit week(s) (including cessation of the ability of the borrowers to exchange their time intervals in the resort for time intervals in other unaffiliated resorts), any such material defect, damage, change, breach of contract, or loss of benefits is likely to result in a delay in payment or default by a substantial number of the borrowers whose VOIs are affected. The costs of foreclosure and resale of unit weeks securing defaulted loans are likely to be substantially higher than such costs for traditional mortgage loans, and this may materially affect the amounts realized by the Company on defaulted loans.

Estimates of Future Prepayment and Default Rates. A significant portion of the Company's revenues historically has been comprised of gains on sales of loans. The gains are recorded in the Company's revenues and on its balance sheet (as retained interests on loan sales) at the time of sale, and the amount of gains recorded is based in part on management's estimates of future prepayment and default rates and other considerations in light of then-current conditions. If actual prepayments with respect to loans occur more quickly than was projected at the time such loans were sold, as can occur when interest rates decline, interest would be less than expected and earnings would be charged in the current period. If actual defaults with respect to loans sold are greater than estimated, charge-offs would exceed previously estimated amounts and earnings would be charged in the current period.

Expansion of Business. The Company has increased the number and average principal amount of its Hypothecation and A&D Loans. A&D Loans are larger commercial loans to land dealers and resort developers and, consequently, have a greater concentration of credit risk than the Company's Purchased Loans. A&D Loans for timeshare resorts are also subject to greater risk because their repayment depends on the successful completion of the development of the resort and the subsequent successful sale of a substantial portion of the resort's timeshare interests. The Company may seek to limit its exposure to any one developer by participating a portion of an A&D Loan with another lender. The Company has historically made Hypothecation Loans to land dealers and resort developers secured by Land Loans and VOI Loans, respectively. Hypothecation Loans are commercial loans that have significantly larger balances than the Company's Purchased Loans and, consequently, have a greater concentration of credit risk which is only partially offset by the lesser concentration of credit risk of the underlying collateral.

In addition, the Company has recently expanded its marketing of Hypothecation Loans to include loans to other finance companies secured by other types of collateral. These loans may be subject to additional risk because the Company has relatively less experience with these other types of collateral than with Land Loans or VOI Loans. In addition, these loans may be larger than the Company's average Hypothecation Loans and may provide the Company with an option to take an equity position in the borrower.

Fluctuations in Quarterly Results of Operations. Since gains on sales of loans are a significant portion of the Company's revenues, the timing of loan sales has a significant effect on the Company's quarterly results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter.

Contingent Repurchase Obligations. In connection with certain of the Company's whole loan sales to investors, the Company has committed to repurchase such loans that become 90 days past due. These contingent obligations are subject to various terms and conditions, including limitations on the amounts of loans which must be repurchased. The Company has also guaranteed payment of mortgage loans included in certain of its mortgage securitization programs. As of December 31, 1998, the Company had outstanding contingent repurchase obligations in the aggregate amount of approximately $10.3 million. In addition, when the Company sells mortgage loans through mortgage securitization programs, the Company commits to replace any loans that do not conform to certain representations and warranties included in the operative loan sale documents.

Regulation. The operations of the Company are subject to extensive regulation by federal, state and local government authorities and are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, including among other things, regulating credit granting activities, establishing maximum interest rates and finance charges, requiring disclosures to customers, governing secured transactions and setting collection, repossession and claims handling procedures and other trade practices. In addition, certain states have enacted legislation which restricts the subdivision of rural land and numerous states have enacted regulations in connection with VOIs. Although the Company believes that it is in compliance in all material respects with applicable federal, state and local laws, rules and regulations, there can be no assurance that more restrictive laws, rules and regulations or interpretations thereof will not be adopted in the future which could make compliance much more difficult or expensive, restrict the Company's ability to originate or sell loans, further limit or restrict the amount of interest and other charges earned under loans originated or purchased by the Company, or otherwise adversely affect the business or prospects of the Company.

Environmental Liabilities. In the course of its business, the Company has acquired, and may in the future acquire, properties securing defaulted loans. Although substantially all of the Company's Land Loans are secured by mortgages on rural land, there is a risk that hazardous substances or waste could be discovered on such properties after foreclosure by the Company. In such event, the Company might be required to remove such substances from the affected properties at its sole cost and expense. There can be no assurances that the cost of such removal would not substantially exceed the value of the affected properties or the loans secured by the properties or that the Company would have adequate remedies against the prior owner or other responsible parties, or that the Company would not find it difficult or impossible to sell the affected properties either prior to or following any such removal.

Dependence on Senior Management. The Company's success depends upon the continued contributions of its senior management. The loss of services of certain of the Company's executive officers could have an adverse effect upon the Company's business. The Company maintains key man insurance on the life of one member of its senior management, Chief Executive Officer and President, Richard A. Stratton.

Item 2. PROPERTIES

The Company owns a leasehold interest in approximately 26,000 square feet of office space in Williamstown, Massachusetts, which is used as the Company's headquarters. The initial ten year lease term expires in May 2007 and is renewable at the Company's option for two additional ten year periods. The initial land lease provides for an annual rental of $20,000. The Company also occupies an aggregate of approximately 5,100 square feet of office space in Lakewood, Colorado, pursuant to a lease expiring in January 2001, with an option to renew until 2004, providing for an annual rental of approximately $56,000, including utilities and exterior maintenance expenses. A subsidiary of the Company occupies an aggregate of approximately 6,100 square feet of office space in Hoover, Alabama, pursuant to a lease expiring in December 1999, providing for an annual rental of approximately $88,000.

Item 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on The Nasdaq Stock Market's National Market under the symbol "LTCH." At March 15, 1999, there were approximately 1,084 holders of record of the Company's common stock. Common Stock Market Prices and Dividends on page 12 of the Annual Report to Stockholders for the year ended December 31, 1998 are incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

The Selected Consolidated Financial Information on pages 3 and 4 of the Annual Report to Stockholders for the year ended December 31, 1998 is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 5 through 13 of the Annual Report to Stockholders for the year ended December 31, 1998 is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Quantitative and Qualitative Disclosures about Market Risk are included on pages 16 through 19 of this Form 10-K Report to Stockholders for the year ended December 31, 1998.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Report of Independent Auditors included on pages 14 through 31 of the Annual Report to Stockholders for the year ended December 31, 1998 are incorporated herein by reference.

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained on pages 4 through 7 of Litchfield Financial Corporation's Proxy Statement dated March 23, 1999, with respect to directors and executive officers of the Company, is incorporated herein by reference in response to this item.

Item 11. EXECUTIVE COMPENSATION

The information contained on pages 8 through 16 of Litchfield Financial Corporation's Proxy Statement dated March 23, 1999, with respect to executive compensation and transactions, is incorporated herein by reference in response to this item.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained on pages 2 through 4 of Litchfield Financial Corporation's Proxy Statement dated March 23, 1999, with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained on page 5 and 7 of Litchfield Financial Corporation's Proxy Statement dated March 23, 1999, with respect to certain relationships and transactions, is incorporated herein by reference in response to this item.

PART IV

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

(a)(1) Financial Statements The following consolidated financial statements of Litchfield Financial Corporation and subsidiaries, included in the annual report of the registrant to its stockholders for the year ended December 31, 1998 are incorporated by reference in Item 8:
Consolidated balance sheets - December 31, 1998 and 1997 Consolidated statements of income - Years ended December 31, 1998, 1997 and 1996
Consolidated statements of stockholders' equity - Years ended December 31, 1998, 1997 and 1996
Consolidated statements of comprehensive income - Years ended December 31, 1998, 1997 and 1996
Consolidated statements of cash flows - Years ended December 31, 1998, 1997 and 1996
Notes to consolidated financial statements - December 31, 1998

(2) Financial statement schedules All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) Listing of Exhibits
A. Exhibits Incorporated by Reference.

(i) The following exhibits are incorporated herein by reference to the Company's Registration Statement on Form S-1 (No. 33-44915), as amended, filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such Registration Statement) (No. 33-44915):

3.1 Restated Articles of Organization of the Company.
3.2 Restated By-Laws of the Company.
10.1 1990 Stock Option Plan adopted and approved on May 30, 1990 and form of Stock Option Agreement
10.2 Securities Purchase Agreement dated as of November 21, 1988.
10.Amendment to the 1990 Stock Option Plan dated February 18, 1992.

(ii) The following exhibits are incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1992 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such annual report on Form 10-K):

10.59Second Amendment to the 1990 Stock Option Plan.

(iii) The following exhibits are incorporated by reference to the Company's Registration Statement No. 33-60788, as amended, filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those exhibits originally filed with such Registration Statement No. 33- 60788):

4.3 Form of Indenture pursuant to which the Company's 8 7/8% Notes due 2003 were issued.
4.4 Form of 8 7/8% Note due 2003.

(iv) The following exhibits are incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1993 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such annual report on Form 10-K)

10.64 Pooling and Servicing Agreement, dated as of August 27, 1993, among the Company, Litchfield Mortgage Securities Corporation and Harris Trust and Savings Bank, as Trustee of the Litchfield Financial Mortgage Trust 1993-2.
10.65 Mortgage Purchase Agreement, dated as of September 28, 1993, between the Company and Litchfield Mortgage Securities Corporation.
10.66 Pooling and Servicing Agreement, dated as of November 30, 1993, among the Company, Litchfield Mortgage Securities Corporation and Harris Trust and Savings Bank, as Trustee of the Litchfield Financial Mortgage Trust 1993-3.

10.Mortgage Purchase Agreement, dated as of December 21, 1993, between the Company and Litchfield Mortgage Securities Corporation.

(v) The following exhibits are incorporated by reference to the Company's Registration Statement No. 33-89488, as amended, filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those exhibits originally filed with such Registration Statement No. 33- 89488):

4.5 Form of Indenture pursuant to which the Company's 10% Notes due 2004 were issued.
4.6 Form of 10% Notes due 2004.

10.68 Pooling and Servicing Agreement, dated as of June 1, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.
10.69 Series Trust Agreement, dated as of June 16, 1994, between the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.
10.70 Mortgage Purchase Agreement, dated as of June 16, 1994, between the Company and Litchfield Mortgage Securities Corporation 1994.
10.71 Pledge and Collateral Agency Agreement, dated as of June 16, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, Internationale Nederlanden (U.S.) Finance Corporation and The Chase Manhattan Bank, N.A., as collateral agent.
10.72 Sinking Fund Account Agreement, dated as of June 16, 1994, among the Company, Internationale Nederlanden (U.S.) Finance Corporation, The Chase Manhattan Bank, N.A. and Internationale Nederlanden (U.S.) Capital Markets.
10.73 Rate Stabilization Agreement, dated as of June 16, 1994, between the Company and Internationale Nederlanden (U.S.) Finance Corporation.
10.74 Series Trust Agreement, dated as September 27, 1994, among the Company Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.
10.75 Mortgage Purchase Agreement, dated as of September 27, 1994, between the Company and Litchfield Mortgage Securities Corporation 1994.
10.76 Pledge and Collateral Agency Agreement, dated as of September 27, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, Internationale Nederlanden (U.S.) Finance Corporation and The Chase Manhattan Bank, N.A., as collateral agent.
10.77 Sinking Fund Account Agreement, dated as of September 27, 1994, among the Company, Internationale Nederlanden (U.S.) Finance Corporation, The Chase Manhattan Bank, N.A. and Internationale Nederlanden (U.S.) Capital Markets.
10.78 Rate Stabilization Agreement, dated as of September 27,

1994, between the Company and Internationale Nederlanden (U.S.) Finance Corporation.

10.79 Pooling and Servicing Agreement, dated as of August 31, 1994, among the Company, Litchfield Mortgage Securities Corporation and Thomas P. McHugh, Esquire, as trustee.

10.80 Mortgage Purchase Agreement, dated as of September 12, 1994 between the Company and Litchfield Mortgage Securities Corporation.

10.81 Lease, dated as of February 1, 1995, between the Company and Fox Point Property L.L.C.

10.84 Employment Agreement, date as of December 23, 1994, between the Company and Wayne M. Greenholtz.

10.85 Third Amendment to the 1990 Stock Option Plan.

(vi) The following exhibits are incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1994 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such annual report on Form 10-K)

10.91 Series Trust Agreement, dated as of December 28, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.92 Mortgage Purchase Agreement, dated as of December 28, 1994, between the Company and Litchfield Mortgage Securities Corporation 1994.

10.93 Certificate Purchase Agreement, dated as of December 28, 1994, among Litchfield Mortgage Securities Corporation 1994, the Company, Holland Limited Securitizations, Inc., and Internationale Nederlanden (U.S.) Capital Markets.

10.94 Pledge and Collateral Agency Agreement, dated as of December 28, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securitization, Inc. and The Chase Manhattan Bank, N.A., as collateral agent.

10.95 Sinking Fund Account Agreement, dated as of December 28, 1994, among the Company, Holland Limited Securitization, Inc., The Chase Manhattan Bank, N.A. and Internationale Nederlanden (U.S.) Capital Markets.

10.97 Amendment No. 1 to Pooling and Servicing Agreement, dated as of December 1, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.98 Amendment No. 1 to Series Trust Agreement Dated June 16, 1994, dated as of December 28, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.99 Amendment to Sinking Fund Account Agreement (Litchfield Mortgage Trust 1994-1), dated as of December 28, 1994, among the Company, Internationale Nederlanden (U.S.) Finance Corporation, The Chase Manhattan Bank, N.A., Internationale Nederlanden (U.S.) Capital Markets.

10.100 Amendment No. 1 to Series Trust Agreement Dated September 27, 1994, dated as of December 28, 1994, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.101 Amendment to Sinking Fund Account Agreement (Litchfield Mortgage Trust 1994-2), dated as of December 28, 1994, among the Company, Internationale Nederlanden (U.S.) Finance Corporation, The Chase Manhattan Bank, N.A., Internationale Nederlanden (U.S.) Capital Markets.

10.119 Amended and Restated Pledge and Collateral Agency Agreement Dated June 16, 1994, dated as of January 26, 1995, among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securitization, Inc., and The Chase Manhattan Bank, N.A., as collateral agent.

10.121 Amendment No. 2 to Pooling and Servicing Agreement, dated as of January 26, 1995, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.122 Amendment No. 2 to Series Trust Agreement Dated June 16, 1994, dated as of January 26, 1995, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

10.123 Amended and Restated Pledge and Collateral Agency Agreement Dated September 27, 1994, dated as of January 26, 1995, among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securitization, Inc., and The Chase Manhattan Bank, N.A., as collateral agent.

10.125 Amendment No. 2 to Series Trust Agreement Dated September 27, 1994, dated as of January 26, 1995, among the Company, Litchfield Mortgage Securities Corporation 1994, and The Chase Manhattan Bank, N.A., as trustee.

(vii)The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1995 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q)

10.126 Asset Purchase Agreement dated as of March 30, 1995 between GEICO Corporation, Government Employees Financial Corporation, GEICO Financial Services, Inc., GEICO Financial Company, Willow Valley Associates, LTD., Variproperties, Inc. as sellers and Litchfield Financial Corporation as purchaser (excluding exhibits and schedules).

10.127 Litchfield Financial Corporation 1995 Stock Option Plan for Non-Employee Directors.

10.128 Sale and Servicing Agreement dated as of March 22, 1995 between Litchfield Timeshare Securities Corporation as depositor and Litchfield Financial Corporation as servicer and Litchfield Timeshare Trust 1995-1.

10.129 Amended and Restated Sale and Servicing Agreement dated as of March 22, 1995 between Litchfield Timeshare Securities Corporation as depositor and Litchfield Financial Corporation as servicer and Litchfield Timeshare Trust 1995-1.

10.130 Litchfield Timeshare Trust 1995-1 Trust Agreement dated as of March 22, 1995 between Litchfield Timeshare Securities Corporation 1995-1 and the Chase Manhattan Bank, N.A. as trustee.

10.131 Amended and Restated Litchfield Timeshare Trust 1995-1 Trust Agreement dated as of March 22, 1995 between Litchfield Timeshare Securities Corporation 1995-1 and the Chase Manhattan Bank, N.A. as trustee.

10.133 Litchfield Timeshare Trust 1995-1 Class A Certificates Purchase Agreement dated April 27, 1995 between Litchfield Timeshare

Securities Corporation 1995-1 as depositor, Litchfield Financial Corporation as initial servicer, and Teachers Insurance and Annuity Association of America as purchaser.
10.134 Litchfield Timeshare Trust 1995-1 Class A Certificates Purchase Agreement dated June 22, 1995 between Litchfield Timeshare Securities Corporation 1995-1 as depositor, Litchfield Financial Corporation as initial servicer, and Teachers Insurance and Annuity Association of America as purchaser.
10.135 Subservicing Agreement between Concord Servicing Corporation, Litchfield Financial Corporation, and Litchfield Timeshare Trust 1995-1, as amended.
(viii) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1995 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q)
10.136 Receivables Financing facility extended by Holland Limited Securitization, Inc. and Internationale Nederlanden (U.S.) capital Markets, Inc., to Litchfield Financial Corporation and Litchfield Mortgage Securities Corporation 1994 dated September 29, 1995.
(ix) The following exhibits are incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1996, as filed with the Securities and Exchange Commission. (exhibit numbers indicated below correspond to those used for exhibits originally filed with such annual report on Form 10-K):
10.137 Amended and Restated Employment Agreement, dated as of July 19, 1996, between the Company and Richard A. Stratton.
10.138 Amended and Restated Employment Agreement, dated as of July 19, 1996, between the Company and Heather A. Sica.
10.139 Employment Agreement, dated as of July 19, 1996, between the Company and Ronald E. Rabidou.
10.140 Commercial Security Agreement dated as of July 23, 1996, in the principal amount of $5,000,000 between the Company and BSB Bank and Trust Co.
10.142 Loan Agreement, dated as of September 13, 1996, in the principal amount of $15,000,000 between the Company and Bank of Scotland.
10.143 Pledge Agreement, dated as of September 13, 1996 between the Company and Bank of Scotland.
10.144 Security Agreement, dated as of September 13, 1996 between the Company and Bank of Scotland.
10.145 Amendment No. 1 to Receivable Purchase Agreement dated September 29, 1995, dated as of December 18, 1995 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.
10.146 Amendment No. 1 to Receivable Loan and Security Agreement dated September 29, 1995, dated as of December 18, 1995 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.
10.147 Amendment No. 2 to Receivable Purchase Agreement dated September 29, 1995, dated as of September 27, 1996 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.
10.148 Amendment No. 2 to Receivable Loan and Security Agreement dated September 29, 1995, dated as of September 27, 1996 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.
10.149 Revolving Credit Note, dated as of April 26, 1996, in the principal amount of $20,000,000 between the Company and the First National Bank of Boston.
10.150 Revolving Credit Note, dated as of October 26, 1996, in the principal amount of $10,000,000 between the Company and Fleet Bank-NH.
10.151 Promissory Note, dated as of January 23, 1997, in the principal amount of $8,000,000 between the Company and BSB Bank and Trust Co.
(x) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1997 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q):
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.

(xi) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1997 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q):
10.154 Loan and security agreement dated March 6, 1997 between Litchfield Financial Corporation and Green Tree Financial Servicing Corporation in the principal amount of $25,000,000.
10.155 Second amended and restated loan and security agreement among Litchfield Financial Corporation, BankBoston, N.A., and Fleet Bank-NH in the principal amount of $50,000,000.
10.156 9.3% Note purchase agreement dated April 7, 1997 between Litchfield Financial Corporation and Teachers Insurance and Annuity Association of America in the principal amount of $20,000,000.

(xii)The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1997 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q):

10.157 Employment agreement, dated as of March 17, 1997 between the Company and Joseph S. Weingarten.
10.158 Asset Purchase Agreement, dated March 21, 1997 among the Company, Litchfield Capital Corporation, EagleFunding Capital Corporation and The First National Bank of Boston, as deal agent.

(xiii) The following exhibits are incorporated by reference to the Company's Registration Statement No. 333-37963, as amended, filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those exhibits originally filed with such Registration

Statement No. 333-37963):

4.7 Form of Indenture pursuant to which the Company's 8.45% Notes were issued.
4.8 Form of 8.45% Note due 2002

(xiv) The following exhibits are incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 1997, as filed with the Securities and Exchange Commission. (exhibit numbers indicated below correspond to those used for exhibits originally filed with such annual report on Form 10-K):

10.159 Ground and building lease, dated May 28, 1997, between the Company and David Mandelbaum, as Trustee, for Williamstown Property Trust.
10.160 Indenture of Trust dated as of June 1, 1997, between Litchfield Hypothecation Corporation and The Chase Manhattan Bank.
10.161 Servicing agreement dated as of June 1, 1997 among the Company, Litchfield Hypothecation Corporation and The Chase Manhattan Bank.
10.162 Indenture of Trust dated as of August 1, 1997 between Litchfield Hypothecation Corporation 1997-B and The Chase Manhattan Bank.
10.163 Servicing agreement dated as of August 1, 1997, among the Company, Litchfield Hypothecation Corporation 1997-B and The Chase Manhattan Bank.
10.164 Amendment No. 4 to Receivables Purchase Agreement dated September 29, 1995, dated as of November 27, 1997 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and ING Barings (U.S.) Capital Markets, Inc.
10.165 Amendment No. 4 to Receivables Loan Agreement dated September 29, 1995, dated as of November 27, 1997 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and ING Barings (U.S.) Capital Markets, Inc.
10. Employment agreement, dated as of January 1, 1998, between the Company and John J. Malloy.
(xv) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to tho7se used for exhibits originally filed with such quarterly report on Form 10-Q):
10.167 Amendment No. 4 to Loan Agreement dated September 13, 1996, dated December 16, 1997, between the Company and Bank of Scotland.

10.168 Amendment No. 3 to Security Agreement dated September 13, 1996, dated December 16, 1997, between the Company and Bank of Scotland.

10.Loan and Security Agreement, dated December 12, 1997, between the Company and Berkshire Bank.

10.Promissory Note, dated December 12, 1997, from the Company to Berkshire Bank

10.Loan Modification Agreement to Loan and Security Agreement dated December 12, 1997, dated March 23, 1998 between the Company and Berkshire Bank.

(xvi) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q):

10.172 Indenture of Trust dated as of June 1, 1998, between Litchfield Hypothecation Corp. 1998-A and The Chase Manhattan Bank.

10.173 Servicing agreement dated as of June 1, 1998 among the Company, Litchfield Hypothecation Corp. 1998-A and The Chase Manhattan Bank.

10.174 Indenture of Trust dated as of June 1, 1998, between Litchfield Hypothecation Corp. 1998-B and The Chase Manhattan Bank.

10.Servicing agreement dated as of June 1, 1998 among the Company, Litchfield Hypothecation Corp. 1998-B and the Chase Manhattan Bank.

10.Amendment No. 5 to Receivable Purchase Agreement dated September 29, 1995, dated as of May 27, 1998 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.

10.Amendment No. 5 to Receivable Loan and Security Agreement dated September 29, 1995, dated as of May 27, 1998 among the Company, Litchfield Mortgage Securities Corporation 1994, Holland Limited Securities, Inc. and Internationale Nederlanden (U.S.) Capital Markets, Inc.

(xvii) The following exhibits are incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1998 as filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those used for exhibits originally filed with such quarterly report on Form 10-Q):

10.178 Amendment No. 1 to Indenture of Trust dated September 1, 1998, dated as of June 1, 1998, between Litchfield Hypothecation Corp.

1998-A and The Chase Manhattan Bank.

10.179 Participation Agreement dated as of September 9, 1998, between the Company and The Brattleboro Savings & Loan.

10.Note Purchase Agreement dated as of September 17, 1998 among the Company, Litchfield Hypothecation Corporation and BankBoston.

10.181 Limited Guarantee dated as of September 17, 1998, between the Company and BankBoston.

(xviii) The following exhibits are incorporated by reference to the Company's Registration Statement No. 333- 59173, as amended, filed with the Securities and Exchange Commission (exhibit numbers indicated below correspond to those exhibits originally filed with such Registration Statement No. 333-59173):

4.9 Form of Indenture, dated as of July 15, 1998, between the Company and The Bank of New York, Trustee. 4.1Form of 8.25% Note due 2003.
4.1Form of 9.25% Note due 2003.

B. Exhibits filed with this Report on Form 10-K.

The following exhibits are filed herewith:

10.182 Amendment No. 2 to Indenture of Trust dated June 1, 1998, dated as of November 1, 1998, between Litchfield Hypothecation Corp. 1998-A and The Chase Manhattan Bank.

10.183 Note Purchase Agreement dated as of November 20, 1998 among the Company, Litchfield Hypothecation Corporation, 1998-Aand BankBoston.
10.184 Note Purchase Agreement dated as of December 29, 1998 among the Company, Litchfield Hypothecation Corporation, 1998-Aand Metrowest Bank.

11.1 Statement Re: Computation of Earnings per Share.
13.1 Annual Report to Stockholders for the Year Ended December 31, 1998.

21.1	List of Subsidiaries.
23.1	Consent of Independent Auditors.
27.1	Financial Data Schedule.

(b) Reports on Form 8-K

None

(c) Exhibits required by Item 601 of Regulation S-K

Such exhibits are either filed herewith or incorporated by reference, as described above.

(d) Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

SIGNATURES

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

LITCHFIELD FINANCIAL CORPORATION

/s/ Richard A. Stratton
RICHARD A. STRATTON
Chief Executive Officer, President and Director
March 26, 1999

/s/ Ronald E. Rabidou
RONALD E. RABIDOU
Chief Financial Officer, Executive Vice President and Treasurer

March 26, 1999

/s/ David M. Pascale
DAVID M. PASCALE
Chief Accounting Officer, Vice President and Controller
March 26, 1999

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

/s/ John Costa
JOHN COSTA
Executive Vice President and Director
March 26, 1999

/s/ Heather Sica
HEATHER A. SICA
Executive Vice President and Director
March 26, 1999

/s/ Gerald Segel
GERALD SEGEL
Director
March 26, 1999

/s/ Richard A. Stratton
RICHARD A. STRATTON
Chief Executive Officer, President and Director
March 26, 1999

/s/ James Westra
JAMES WESTRA
Director
March 26, 1999

Exhibit 10.182

AMENDMENT NO. 2 TO INDENTURE OF TRUST (this "Amendment"), dated as of November 1, 1998, by and between LITCHFIELD HYPOTHECATION CORP. 1998-A, a corporation organized under the laws of the State of Delaware (the "Issuer"), and THE CHASE MANHATTAN BANK, a New York banking corporation, as trustee (together with its permitted successors in the trusts hereunder, the "Trustee").

W I T N E S S E T H:

WHEREAS, the Issuer and the Trustee are parties to an Indenture of Trust, dated as of June 1, 1998 and amended by Amendment No. 1 thereto dated as of September 1, 1998 (the "Indenture"), providing for the issuance by the Issuer from time to time of its Hypothecation Loan Collateralized Notes in an aggregate outstanding principal amount not to exceed $30,000,000 (collectively, the "Notes");

WHEREAS, pursuant to the Indenture, the Issuer has pledged and assigned all of the Issuer's right, title and interest in and to the Trust Estate to the Trustee as security for the Notes;

WHEREAS, on the Closing Date, the Issuer issued Series A Notes in an initial aggregate principal amount of $10,027,636.73 which Series A Notes were authenticated and delivered by the Trustee to the Purchaser;

WHEREAS, on the Second Closing Date, the Issuer issued Series A Notes in an initial aggregate principal amount of $$2,121,981.93, which Series A Notes were authenticated and delivered by the Trustee to the Purchaser;

WHEREAS, the Issuer desires to issue additional Series A Notes in an initial aggregate principal amount of $7,792,239.88 (the "Additional Series A Notes"), to authorize the Trustee to authenticate and deliver $5,000,000 original principal amount of the Additional Series A Notes to the Purchaser and $2,792,239.88 original principal amount of the Additional Series A Notes to Litchfield Financial Corporation ("Litchfield") and to increase the aggregate principal amount of Notes that may be issued pursuant to the Indenture to $55,000,000;

WHEREAS, as security for the Additional Series A Notes and all other Notes now or from time to time hereafter outstanding, the Issuer desires to pledge and assign the additional loans specified on Schedule A hereto (the "Additional Loans") and the Loan Collateral and related assets (but excluding Unassigned Rights) relating to the Additional Loans to the Trustee as additional assets comprising the Trust Estate;

WHEREAS, the Purchaser and Litchfield, as the Holders of 100% of the aggregate outstanding principal amount of the Notes on the date hereof have consented to the execution and delivery of this Amendment by the parties hereto;

NOW, THEREFORE, in consideration of the premises and mutual agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Issuer and the Trustee agree as follows;

1. Amendments. (a) Schedule 1 to the Indenture is hereby amended and restated in its entirety by the revised Schedule 1 attached hereto as Exhibit A, and all references to Schedule 1 in the Indenture and Appendix A incorporated by reference therein shall refer to Schedule 1 as so amended and restated.

(b) The Indenture is further amended to provide that each and every Additional Loan shall be deemed a "Loan" for all purposes of the Indenture and Appendix A incorporated by reference therein and all references to a "Loan" and the "Loans" in the Indenture and Appendix A incorporated by reference therein shall include each Additional Loan.

(c) Appendix A as incorporated by reference into the Indenture is hereby amended by the addition of the term "Third Closing Date" as follows: "Third Closing Date" shall mean November 20, 1998."

(d) Clause (iii) of the definition of "List of Loans" in Appendix A as incorporated by reference into the Indenture is hereby amended by the addition of the following at the end thereof: "(or, with respect to Loans contributed to the Trust Estate after the Closing Date, the first day of the month in which such Loans are contributed to the Trust Estate)..

(e) The definition of "Note Limit" in Appendix A as incorporated by reference into the Indenture is hereby amendedto read as follows: "'Note Limit' shall mean $55,000,000."

(f) Section 2.1 of the Indenture is hereby amended by the addition of the following sentence at the end thereof:
"The Trustee is hereby authorized on the Third Closing Date to authenticate and deliver (i) to the Purchaser Series A Notes in the initial principal amount of $5,000,000 and (ii) to Litchfield Series A Notes in the initial principal amount of $2,792,239.88.

(f) The first recital and Section 2.3 of the Indenture are hereby amended by deleting the references to "$30,000,000" contained therein and replacing the same with "$55,000,000."

(g) Section 2.4(i) of the Indenture is hereby amended by deleting the reference to "$750,000" contained therein and replacing the same with "$100,000."

(h) Clause (b) (i) of Section 2.9 of the Indenture is hereby amended to read as follows: "June 29, 1998 in the case of the Series A Notes issued and authenticated on the Closing Date, September 13, 1998 in the case of the Series A Notes issued and authenticated on the Second Closing Date and November 20, 1998 in the case of the Series A Notes issued and authenticated on the Third Closing Date." Clause (b) of Section 2.9 of the Indenture is hereby further amended by the deleting the fifth sentence thereof and substituting in lieu thereof the following: "The LIBOR Rate for each day of a Payment Period shall be the rate so published two Business Days before the first day of such Payment Period."

2. Further Agreements. The parties each agree to execute and deliver to the other such reasonable and appropriate additional documents, instruments or agreements as may be necessary or appropriate to effectuate the purposes of this Amendment.

3. Costs and Expenses. The Issuer shall reimburse the Trustee for the reasonable costs and expenses, including costs and expenses of counsel, incurred by Trustee in connection with this Amendment.

4. Indenture in Full Force and Effect. The amendments set forth herein are limited precisely as written and shall not be deemed to (i) modify any other term or condition of the Indenture or (ii) prejudice any right the Noteholders may have now or in the future under or in connection with the Notes, the Indenture or any related document or agreement. Except as expressly amended hereby, the Indenture shall remain unchanged and in full force and effect.

5. Effect of Headings. The section headings herein are for convenience only and shall not affect the construction hereof.

6. Successors and Assigns. All covenants and agreements in this Amendment by the Issuer shall bind its successors and assigns, whether so expressed or not.

7. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

8. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of New York, without regard to the conflict-of-law provisions thereof.

9. Counterparts. This Amendment may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Amendment to be duly executed by their duly authorized officers all as of the day and year first above written.

THE CHASE MANHATTAN BANK
as Trustee

By: /s/ Cynthia Kerpen_____________________
Title: Assistant Vice President________________

LITCHFIELD HYPOTHECATION CORP.
1998-A

By: /s/ Heather A. Sica___________________
Title: Executive Vice President_______________

Exhibit 10.183

LITCHFIELD HYPOTHECATION CORP. 1998-A,

LITCHFIELD FINANCIAL CORPORATION

AND

BANKBOSTON, N.A.

NOTE PURCHASE AGREEMENT

Dated: November 20, 1998

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LITCHFIELD HYPOTHECATION CORP. 1998-A

NOTE PURCHASE AGREEMENT

November 20, 1998

LITCHFIELD HYPOTHECATION CORP., a Delaware corporation, and its successors and assigns (the "Issuer"), and LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation (the "Seller"), hereby agree with BANKBOSTON, N.A. (the "Purchaser"), as follows:

1. The Notes. The Issuer has authorized the execution and delivery to The Chase Manhattan Bank, as trustee (the "Trustee"), of an Indenture of Trust, dated as of June 1, 1998, as amended by Amendment No 1. thereto dated as of September 1, 1998 and Amendment No. 2 thereto dated as of November 1, 1998 (collectively, the "Indenture"), providing for the issuance and sale by the Issuer of its Hypothecation Loan Collateralized Notes, in one or more series, secured by the Trust Estate granted to the Trustee by the Issuer pursuant to the Indenture, which includes, among other assets, a pool of certain hypothecation Loans owned by the Issuer and serviced by Litchfield Financial Corporation, a Massachusetts corporation (in such capacity, the "Servicer"). Unless otherwise specifically defined herein, all capitalized terms shall have the meanings ascribed to them in the Indenture.

2. Purchase and Sale. In reliance upon the representations and warranties contained herein and subject to the terms and conditions set forth herein, the Issuer agrees to sell to the Purchaser, and the Purchaser agrees to purchase from the Issuer, $5,000,000 principal amount of Hypothecation Loan Collateralized Notes, Series A (the "Notes") at an aggregate price (the "Purchase Price") equal to the aggregate outstanding principal amount of the Notes on the Closing Date (as hereinafter defined). The Purchase Price shall be allocated among the Seller and the Issuer in proportion to the principal amount of Notes sold by each. The Purchase Price shall be payable to or upon the instructions of the Issuer and the Seller on the Closing Date by wire transfer in immediately available Federal funds.

3. The Closing; Delivery of the Notes. The closing of the purchase and sale of the Notes pursuant hereto (the "Closing") shall be held on November 20, 1998 (the "Closing Date"). The Closing shall take place by mail or at such place as the parties hereto shall designate. At the Closing, the Issuer and the Seller, respectively, will deliver to the Purchaser, against payment of the Purchase Price therefor, one Series A Note in the denomination of $5,000,000 registered in the Purchaser's name, or in the name of its nominee; provided however, that if the Purchaser requests the Issuer or the Seller in writing not less than one Business Day prior to the Closing Date to deliver to the Purchaser Notes in other denominations (authorized pursuant to the Indenture) that equal in the aggregate the denominations specified above, the Seller and the Issuer shall comply with such request.

4. Conditions of the Purchaser's Obligation. The obligation of the Purchaser set forth in Section 2 to purchase the Notes on the Closing Date shall be subject to the accuracy as of the date hereof and as of the Closing Date of (i) the representations and warranties of the Issuer set forth in Section 5 hereof, (ii) the representations and warranties of the Seller in the Purchase and Sale Agreement and in Section 5 hereof, and (iii) the representations and warranties of the Servicer in the Servicing Agreement, and shall also be subject to the following additional conditions:

(a) Each of this Purchase Agreement, the Notes, the Indenture, the Servicing Agreement, and the Purchase and Sale Agreement (collectively, the "Agreements") shall have been duly authorized, executed and delivered by each of the parties thereto and be in full force and effect; and

(b) The Purchaser shall have received copies of all documents and other information as it may reasonably request, in form and substance reasonably satisfactory to it, with respect to such transactions and the taking of all proceedings in connection therewith.

5. Representations and Warranties. (a) The Issuer represents and warrants to the Purchaser as of the date hereof as follows:

(i) Each of the Agreements to which the Issuer is a party has been duly authorized, executed and delivered by the Issuer and, assuming due execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law). The Notes have been validly issued and are entitled to the benefits of the Indenture and constitute valid instruments enforceable in accordance with their terms subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(ii) Neither the issuance or sale of the Notes, nor the consummation of any other of the transactions contemplated in any of the Agreements to which the Issuer is a party, nor the execution, delivery or performance of the terms of any of the Agreements to which the Issuer is a party, has or will result in the breach of any term or provision of the certificate of incorporation or by-laws of the Issuer, or conflict with, result in a breach or violation on the part of the Issuer of or the acceleration of indebtedness under or constitute a default under, the terms of any indenture or other agreement or instrument to which the Issuer is a party or by which it is bound, or any statute or regulation applicable to the Issuer or any order applicable to the Issuer of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Issuer.

(iii) No consent, approval, authorization of, registration or filing with, or notice to, any governmental or regulatory authority, agency, department, commission, board, bureau, body or instrumentality is required on the part of the Issuer for the execution and delivery or by the Issuer with any of the Agreements to which the Issuer is a party or the Notes, or the issuance of the Notes, or the consummation by the Issuer of any transaction contemplated under any of the Agreements to which the Issuer is a party, or such consent, approval or authorization has been obtained or such registration, filing or notice has been made (or, with respect to assignments of mortgages and financing statements, will be made by the Issuer as contemplated by the Indenture).

(iv) There is no action, suit or proceeding against, or investigation of, the Issuer pending or, to the best of its knowledge, threatened, before any court, administrative agency or other tribunal which, either individually or in the aggregate, (A) may result in any material adverse change in the financial condition, properties, or assets of the Issuer or in any material and adverse impairment of the right or ability of the Issuer to perform its obligations under the Agreements, or (B) asserts the invalidity of any of the Agreements to which either the Issuer is a party or the Notes or (C) seeks to prevent the consummation of any of the transactions contemplated by any of the Agreements to which the Issuer is a party.

(v) Based in part on the representations and warranties contained in Section 6 hereof, the Issuer is not, and the sale of the Notes in the manner contemplated by this Purchase Agreement will not cause the Issuer to be, subject to registration or regulation as an investment company or affiliate of any investment company under the Investment Company Act of 1940, as amended.

(vi) Each Loan included in the Trust Estate securing the Notes has been delivered to the Trustee or its collateral agent, together with an assignment thereof by the Issuer, which immediately prior to such assignment will own full legal and equitable title to each Loan, free and clear of any lien, charge, encumbrance or participation or ownership interest in favor of any other Person. Upon endorsement and delivery to the

Trustee or its collateral agent of the executed original promissory notes and execution and delivery of the Indenture, all of the Issuer's right, title and interest in and to the Loans will be validly and effectively transferred to the Indenture Trustee as collateral security for the benefit of the Holders of the Notes.

(vii) On the Closing Date after giving effect to the sale of the Notes to the Purchaser hereunder, the aggregate principal amount of all Hypothecation Loan Collateralized Notes outstanding shall be $23,555,665.90, of which $15,687,080.36 aggregate principal amount shall be Series A Notes owned of record by the Purchaser, $ 2,792,239.88 aggregate principal amount shall be Series A Notes owned of record by the Seller, $1,567,242.97 aggregate principal amount shall be Series B Variable Funding Notes owned of record by the Seller and $3,509,102.69 aggregate principal amount shall be Series C Notes owned of record by the Purchaser.

(b) The Seller represents and warrants to the Purchaser as of the date hereof as follows:

(i) Each of the Agreements to which the Seller is a party has been duly authorized, executed and delivered by the Seller and, assuming due execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Seller enforceable against the Seller in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(ii) Neither the sale of the Notes, nor the consummation of any other of the transactions contemplated in any of the Agreements to which the Seller is a party, nor the execution, delivery or performance of the terms of any of the Agreements to which the Seller is a party, has or will result in the breach of any term or provision of the certificate of incorporation or by-laws of the Seller, or conflict with, result in a breach or violation on the part of the Seller of or the acceleration of indebtedness under or constitute a default under, the terms of any indenture or other agreement or instrument to which the Seller is a party or by which it is bound, or any statute or regulation applicable to the Seller or any order applicable to the Seller of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Seller.

(iii)No consent, approval, authorization of, registration or filing with, or notice to, any governmental or regulatory authority, agency, department, commission, board, bureau, body or instrumentality is required on the part of the Seller for the execution and delivery or by the Seller with any of the Agreements to which the Seller is a party, or the sale of the Notes, or the consummation by the Seller of any transaction contemplated under any of the Agreements to which the Seller is a party, or such consent, approval or authorization has been obtained or such registration, filing or notice has been made (or, with respect to assignments of mortgages and financing statements, will be made by the Seller as contemplated by the Indenture).

(iv) There is no action, suit or proceeding against, or investigation of, the Seller pending or, to the best of its knowledge, threatened, before any court, administrative agency or other tribunal which, either individually or in the aggregate, (A) may result in any material adverse change in the financial condition, properties, or assets of the Seller or in any material and adverse impairment of the right or ability of the Seller to perform its obligations under the Agreements, or (B) asserts the invalidity of any of the Agreements to which either the Seller is a party or the Notes or (C) seeks to prevent the consummation of any of the transactions contemplated by any of the Agreements to which either the Seller is a party.

(v) Neither the Seller nor any Affiliate of the Seller nor any Person authorized or employed by the Seller will, directly or indirectly, offer or sell any Note or similar security in a manner which would render the sale of the Notes pursuant to this Purchase Agreement a violation of Section 5 of the 1933 Act, or require registration pursuant thereto. Based in part on the representations and warranties contained in Section 6 hereof, the offering and sale of the Notes by the Seller to Purchaser at closing are exempt from the registration requirements of the 1933 Act and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended.

The Issuer and the Seller agree that the representations and warranties set forth in this Section 5 shall be fully assignable to the initial party to whom the Purchaser may sell the Notes.

6. The Purchaser's Representations. The Purchaser represents to the Issuer as follows:

(a) The Purchaser is acquiring the Notes for its own account. The Purchaser understands that the Notes are not being registered under the Securities Act of 1933, as amended (the "1933 Act"), or any State securities or "Blue Sky" law and are being sold to the Purchaser in reliance upon the Purchaser's representations contained herein in a transaction that is exempt from the registration requirements of the 1933 Act and any applicable State law. The Purchaser agrees that the Notes may not be Transferred unless subsequently registered under the 1933 Act and any applicable State securities or "Blue Sky" law or unless exemptions from the registration requirements of the 1933 Act and applicable State laws are available. Subject to the express provisions of this Purchase Agreement and the Indenture, the disposition of the Notes shall at all times be within the control of the owner thereof. Notwithstanding anything to the contrary, express or implied, in this Agreement, the Indenture or otherwise, the Purchaser understands that none of the Trust, the Note Registrar or the Indenture Trustee is obligated to register the Notes under the 1933 Act or any other securities law and that any Transfer in violation of the provisions of the Indenture shall be void ab initio. The foregoing shall in no way limit the ability or the right of the Purchaser to sell participation interests in any Notes owned by the Purchaser.

(b) The Purchaser is either (i) an "accredited investor" as defined in rule 501(a) under the 1933 Act or
(ii) a Qualified Institutional Buyer as defined in Rule 144A under the 1933 Act.

(c) The Purchaser is authorized to enter into this Purchase Agreement and to purchase the Notes. This Purchase Agreement has been duly authorized executed and delivered by the Purchaser and constitutes the Purchaser's legal, valid and binding agreement enforceable against the Purchaser in accordance with its terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(d) The Purchaser has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Notes and the Purchaser is able to bear the economic risk of investment in the Notes. The Purchaser acknowledges that in connection with the making of its investment decision, the Purchaser has been afforded the opportunity to ask questions of, and receive answers regarding, and to conduct its investigation of, the Issuer, the Loans and the Loan Collateral, the Trust Estate, the Notes and the Servicer as is sufficient and necessary for the Purchaser to make an informed investment decision with respect to the Notes.

(e) No placement agent, broker, finder or investment banker has been employed by or has acted for the Seller or the Purchaser in connection with the transactions with the Purchaser contemplated in this Purchase Agreement or otherwise in connection with the Notes; and the Purchaser is solely responsible for, and the Purchaser shall indemnify the Seller for the fees, expenses or commissions of any placement agent, broker, finder or investment banker and any other person or entity claiming to have acted in such capacity for or under the authority of the Purchaser.

(f) The Purchaser agrees to treat, and to take no action inconsistent with the treatment of, the Notes as debt of the Issuer for tax purposes.

7. Notices. All notices and other communications hereunder shall be in writing and shall be sent by first class registered or certified mail, return receipt requested, or by facsimile transmission, provided such transmission is confirmed by overnight mail delivered by a nationally recognized overnight delivery service, addressed (a) if to the Purchaser, BankBoston, N.A.,15 Westminster Street, Providence, Rhode Island 02903, Attention: Thomas Morris, and (b) if to the Issuer or the Seller, c/o Litchfield Financial Corporation, 430 Main Street, Williamstown, Massachusetts 01267, Attention: Executive Vice President, or to such other address as the Issuer or the Seller shall have furnished to the Purchaser in writing. Any notice so given by registered or certified mail shall be deemed to have been given five days after being deposited in a depository of the United States mails. Any notice given by means of a nationally recognized overnight delivery service shall be deemed to have been given upon receipt thereof.

8. Miscellaneous. (a) This Purchase Agreement shall be construed and enforced in accordance with and governed by the law of the State of New York.

(b) Any action or proceeding relating in any way to this Purchase Agreement may be brought and enforced in the courts of the State of New York or of the United States for the Southern District of New York and each of the Issuer, the Seller and the Purchaser irrevocably submits to the jurisdiction of each such court (and any appellate court from any thereof) in respect of any such action or proceeding.

Each of the Issuer, the Seller and the Purchaser irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any such action or proceeding in any state court of the State of New York or the United States District Court for the Southern District of New York, and any claim that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(c) This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof.

(d) The headings in this Purchase Agreement are for the purposes of reference only and shall not limit or define the meaning hereof.

(e) This Purchase Agreement shall be binding upon the respective successors and assigns of the parties hereto and shall inure to the benefit of and be enforceable by any registered owner or owners at the time of each Note then issued, or any part thereof. This Purchase Agreement may be assigned by the Purchaser to an eligible purchaser of the Notes in connection with a permitted transfer of the Notes in accordance with the Indenture.
(f) This Purchase Agreement may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such amendment, waiver, discharge or termination is sought.

(g) This Purchase Agreement may be executed simultaneously in several counterparts, or by different parties in separate counterparts, each of which counterparts shall be an original, but all of which shall constitute one instrument.

9. No Recourse. It is expressly understood and agreed by the parties hereto that (a) the representations, undertakings and agreements herein made on the part of the Issuer are made and intended not as personal representations, undertakings and agreements by the Seller but are made and intended for the purpose of binding only the Issuer, (b) nothing herein contained shall be construed as creating any liability on the Seller to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto, and (c) under no circumstances shall the Seller be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Agreement; it being understood that the foregoing shall in no way limit the obligations of the Seller under the Guarantee or the Purchase and Sale Agreement.

10. Right of First Refusal. The Issuer and the Originator, respectively, hereby grant to the Purchaser an exclusive right of first refusal to purchase, on equal or better terms as proposed by any prospective third party purchaser, (i) any Series A notes issued by the Issuer on and after the date hereof and (ii) any Series B Variable Funding Notes (or any Series C Notes issued in conversion thereof) issued to the Originator on and after the date hereof. In the event the Purchaser shall decline to exercise its right of first refusal with respect to any Notes within 10 days

after notice of the proposed sale and the terms thereof is given to the Purchaser, the Issuer or the Originator, as the case may be, shall be entitled to sell such Notes to the third party purchaser on the terms disclosed to the Purchaser.

IN WITNESS WHEREOF, the parties hereto have caused this Purchase Agreement to be duly executed on the date first written above.

LITCHFIELD HYPOTHECATION CORP. 1998-A

By: /s/ Heather A. Sica
Name: HEATHER A. SICA
Title: Executive Vice President

LITCHFIELD FINANCIAL CORPORATION

By: /s/ Heather A. Sica
Name: HEATHER A. SICA
Title: Executive Vice President

BANKBOSTON, N.A.

By: Thomas J. Morris
Name: THOMAS J. MORRIS
Title: Vice President

Exhibit 10.183

SCHEDULE I

Name, Address and Payment Provisions of Purchaser	Principal Amount Amount of Notes To Be Purchased

BankBoston, N.A. $5,000,000 Series A

(a) All payments on account of the Notes shall be made in immediately available funds at the opening of business on the due date by electronic funds transfer, properly identified, to the following account:

Bank: BankBoston, N.A.
ABA #:011-000-390
Account #:26815897
Attn: Litchfield Hypothecation Corp. 1998-A

Exhibit 10.184

LITCHFIELD HYPOTHECATION CORP. 1998-A,

LITCHFIELD FINANCIAL CORPORATION

AND

METROWEST BANK

NOTE PURCHASE AGREEMENT

Dated: December 29, 1998

TABLE OF CONTENTS

LITCHFIELD HYPOTHECATION CORP. 1998-A

NOTE PURCHASE AGREEMENT

December 29, 1998

LITCHFIELD HYPOTHECATION CORP. 1998-A, a Delaware corporation, and its successors and assigns (the "Issuer"), and LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation (the "Seller"), hereby agree with METROWEST BANK (the "Purchaser"), as follows:

1. The Notes. The Issuer has authorized the execution and delivery to The Chase Manhattan Bank, as trustee (the "Trustee"), of an Indenture of Trust, dated as of June 1, 1998, as amended (collectively, the "Indenture"), providing for the issuance and sale by the Issuer of its Hypothecation Loan Collateralized Notes, in one or more series, secured by the Trust Estate granted to the Trustee by the Issuer pursuant to the Indenture, which includes, among other assets, a pool of certain hypothecation Loans owned by the Issuer and serviced by Litchfield Financial Corporation, a Massachusetts corporation (in such capacity, the "Servicer"). The Seller is the owner of the Notes (as defined below), which Notes have been issued by the Issuer pursuant to the Indenture. Unless otherwise specifically defined herein, all capitalized terms shall have the meanings ascribed to them in the Indenture.

2. Purchase and Sale. In reliance upon the representations and warranties contained herein and subject to the terms and conditions set forth herein, the Seller agrees to sell to the Purchaser, and the Purchaser agrees to purchase from the Seller, $2,625,786.95 principal amount of Hypothecation Loan Collateralized Notes, Series A and $ 2,374,213.05 principal amount of Hypothecation Loan Collateralized Notes, Series C (the foregoing notes are referred to herein collectively as the "Notes") at an aggregate price (the "Purchase Price") equal to the aggregate outstanding principal amount of the Notes on the Closing Date (as hereinafter defined). The Purchase Price shall be payable to or upon the instructions of the Seller on the Closing Date by wire transfer in immediately available Federal funds.

3. The Closing; Delivery of the Notes. The closing of the purchase and sale of the Notes pursuant hereto (the "Closing") shall be held on December 29, 1998 (the "Closing Date"). The Closing shall take place by mail or at such place as the parties hereto shall designate. At the Closing, the Seller will deliver to the Purchaser, against payment of the Purchase Price therefor, one Series A Note in the original denomination of $ 2,792,239.88, of which $2,625,786.95 shall be outstanding on the Closing Date, and one Series C Note in the denomination of $2,374,213.05 registered in the Purchaser's name, or in the name of its nominee; provided however, that if the Purchaser requests the Seller in writing not less than one Business Day prior to the Closing Date to deliver to the Purchaser Notes in other denominations (authorized pursuant to the Indenture) that equal in the aggregate the denominations specified above, the Seller shall comply with such request.

4. Conditions of the Purchaser's Obligation. The obligation of the Purchaser set forth in Section 2 to purchase the Notes on the Closing Date shall be subject to the accuracy as of the date hereof and as of the Closing Date of (i) the representations and warranties of the Issuer set forth in Section 5 hereof, (ii) the representations and warranties of the Seller in the Purchase and Sale Agreement and in Section 5 hereof, and (iii) the representations and warranties of the Servicer in the Servicing Agreement, and shall also be subject to the following additional conditions:

(a) Each of this Purchase Agreement, the Notes, the Indenture, the Servicing Agreement, and the Purchase and Sale Agreement (collectively, the "Agreements") shall have been duly authorized, executed and delivered by each of the parties thereto and be in full force and effect; and

(b) The Purchaser shall have received copies of all documents and other information as it may reasonably request, in form and substance reasonably satisfactory to it, with respect to such transactions and the taking of all proceedings in connection therewith.

5. Representations and Warranties. (a) The Issuer represents and warrants to the Purchaser as of the date hereof as follows:

(i) Each of the Agreements to which the Issuer is a party has been duly authorized, executed and delivered by the Issuer and, assuming due execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law). The Notes have been validly issued and are entitled to the benefits of the Indenture and constitute valid instruments enforceable in accordance with their terms subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(ii) Neither the issuance or sale of the Notes, nor the consummation of any other of the transactions contemplated in any of the Agreements to which the Issuer is a party, nor the execution, delivery or performance of the terms of any of the Agreements to which the Issuer is a party, has or will result in the breach of any term or provision of the certificate of incorporation or by-laws of the Issuer, or conflict with, result in a breach or violation on the part of the Issuer of or the acceleration of indebtedness under or constitute a default under, the terms of any indenture or other agreement or instrument to which the Issuer is a party or by which it is bound, or any statute or regulation applicable to the Issuer or any order applicable to the Issuer of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Issuer.

(iii) No consent, approval, authorization of, registration or filing with, or notice to, any governmental or regulatory authority, agency, department, commission, board, bureau, body or instrumentality is required on the part of the Issuer for the execution and delivery or by the Issuer with any of the Agreements to which the Issuer is a party or the Notes, or the issuance of the Notes, or the consummation by the Issuer of any transaction contemplated under any of the Agreements to which the Issuer is a party, or such consent, approval or authorization has been obtained or such registration, filing or notice has been made (or, with respect to assignments of mortgages and financing statements, will be made by the Issuer as contemplated by the Indenture).

(iv) There is no action, suit or proceeding against, or investigation of, the Issuer pending or, to the best of its knowledge, threatened, before any court, administrative agency or other tribunal which, either individually or in the aggregate, (A) may result in any material adverse change in the financial condition, properties, or assets of the Issuer or in any material and adverse impairment of the right or ability of the Issuer to perform its obligations under the Agreements, or (B) asserts the invalidity of any of the Agreements to which either the Issuer is a party or the Notes or (C) seeks to prevent the consummation of any of the transactions contemplated by any of the Agreements to which the Issuer is a party.

(v) Based in part on the representations and warranties contained in Section 6 hereof, the Issuer is not, and the sale of the Notes in the manner contemplated by this Purchase Agreement will not cause the Issuer to be, subject to registration or regulation as an investment company or affiliate of any investment company under the Investment Company Act of 1940, as amended.

(vi) Each Loan included in the Trust Estate securing the Notes has been delivered to the Trustee or its collateral agent, together with an assignment thereof by the Issuer, which immediately prior to such assignment will own full legal and equitable title to each Loan, free and clear of any lien, charge, encumbrance or participation or ownership interest in favor of any other Person. All of the Issuer's right, title and interest in and to the Loans have been validly and effectively transferred to the Indenture Trustee as collateral security for the benefit of the Holders of the Notes.

(vii) On the Closing Date after giving effect to the sale of the Notes to the Purchaser hereunder, the aggregate principal amount of all Litchfield Hypothecation Corp. 1998-A, Hypothecation Loan Collateralized Notes outstanding shall be $25,163,962.17, of which $2,625,786.95 aggregate principal amount shall be Series A Notes owned of record by the Purchaser, $14,433,784.65 aggregate principal amount shall be Series A Notes owned of record by BankBoston, N.A., $ 2,535,058.04 aggregate principal amount shall be Series B Variable Funding Notes owned of record by the Seller, $2,374,213.05 aggregate principal amount shall be Series C Notes owned of record by the Purchaser and $3,195,119.48 aggregate principal amount shall be Series C Notes owned of record by BankBoston, N.A.

(b) The Seller represents and warrants to the Purchaser as of the date hereof as follows:

(i) Each of the Agreements to which the Seller is a party has been duly authorized, executed and delivered by the Seller and, assuming due execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Seller enforceable against the Seller in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(ii) Neither the sale of the Notes, nor the consummation of any other of the transactions contemplated in any of the Agreements to which the Seller is a party, nor the execution, delivery or performance of the terms of any of the Agreements to which the Seller is a party, has or will result in the breach of any term or provision of the certificate of incorporation or by-laws of the Seller, or conflict with, result in a breach or violation on the part of the Seller of or the acceleration of indebtedness under or constitute a default under, the terms of any indenture or other agreement or instrument to which the Seller is a party or by which it is bound, or any statute or regulation applicable to the Seller or any order applicable to the Seller of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Seller.

(iii)No consent, approval, authorization of, registration or filing with, or notice to, any governmental or regulatory authority, agency, department, commission, board, bureau, body or instrumentality is required on the part of the Seller for the execution and delivery or by the Seller with any of the Agreements to which the Seller is a party, or the sale of the Notes, or the consummation by the Seller of any transaction contemplated under any of the Agreements to which the Seller is a party, or such consent, approval or authorization has been obtained or such registration, filing or notice has been made (or, with respect to assignments of mortgages and financing statements, will be made by the Seller as contemplated by the Indenture).

(iv) There is no action, suit or proceeding against, or investigation of, the Seller pending or, to the best of its knowledge, threatened, before any court, administrative agency or other tribunal which, either individually or in the aggregate, (A) may result in any material adverse change in the financial condition, properties, or assets of the Seller or in any material and adverse impairment of the right or ability of the Seller to perform its obligations under the Agreements, or (B) asserts the invalidity of any of the Agreements to which either the Seller is a party or the Notes or (C) seeks to prevent the consummation of any of the transactions contemplated by any of the Agreements to which either the Seller is a party.

(v) Neither the Seller nor any Affiliate of the Seller nor any Person authorized or employed by the Seller will, directly or indirectly, offer or sell any Note or similar security in a manner which would render the sale of the Notes pursuant to this Purchase Agreement a violation of Section 5 of the 1933 Act, or require registration pursuant thereto. Based in part on the representations and warranties contained in Section 6 hereof, the offering and sale of the Notes by the Seller to Purchaser at closing are exempt from the registration requirements of the 1933 Act and the Indenture is not required to be qualified under the Trust Indenture Act of 1939, as amended.

The Issuer and the Seller agree that the representations and warranties set forth in this Section 5 shall be fully assignable to the initial party to whom the Purchaser may sell the Notes.

6. The Purchaser's Representations. The Purchaser represents to the Issuer as follows:

(a) The Purchaser is acquiring the Notes for its own account. The Purchaser understands that the Notes are not being registered under the Securities Act of 1933, as amended (the "1933 Act"), or any State securities or "Blue Sky" law and are being sold to the Purchaser in reliance upon the Purchaser's representations contained herein in a transaction that is exempt from the registration requirements of the 1933 Act and any applicable State law. The Purchaser agrees that the Notes may not be transferred unless subsequently registered under the 1933 Act and any applicable State securities or "Blue Sky" law or unless exemptions from the registration requirements of the 1933 Act and applicable State laws are available. Subject to the express provisions of this Purchase Agreement and the Indenture, the disposition of the Notes shall at all times be within the control of the owner thereof. Notwithstanding anything to the contrary, express or implied, in this Agreement, the Indenture or otherwise, the Purchaser understands that none of the Trust, the Note Registrar or the Indenture Trustee is obligated to register the Notes under the 1933 Act or any other securities law and that any transfer in violation of the provisions of the Indenture shall be void ab initio. The foregoing shall in no way limit the ability or the right of the Purchaser to sell participation interests in any Notes owned by the Purchaser.

(b) The Purchaser is either (i) an "accredited investor" as defined in rule 501(a) under the 1933 Act or
(ii) a Qualified Institutional Buyer as defined in Rule 144A under the 1933 Act.

(c) The Purchaser is authorized to enter into this Purchase Agreement and to purchase the Notes. This Purchase Agreement has been duly authorized executed and delivered by the Purchaser and constitutes the Purchaser's legal, valid and binding agreement enforceable against the Purchaser in accordance with its terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(d) The Purchaser has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Notes and the Purchaser is able to bear the economic risk of investment in the Notes. The Purchaser acknowledges that in connection with the making of its investment decision, the Purchaser has been afforded the opportunity to ask questions of, and receive answers regarding, and to conduct its investigation of, the Issuer, the Loans and the Loan Collateral, the Trust Estate, the Notes and the Servicer as is sufficient and necessary for the Purchaser to make an informed investment decision with respect to the Notes.

(e) No placement agent, broker, finder or investment banker has been employed by or has acted for the Seller or the Purchaser in connection with the transactions with the Purchaser contemplated in this Purchase Agreement or otherwise in connection with the Notes; and the Purchaser is solely responsible for, and the Purchaser shall indemnify the Seller for the fees, expenses or commissions of any placement agent, broker, finder or investment banker and any other person or entity claiming to have acted in such capacity for or under the authority of the Purchaser.

(f) The Purchaser agrees to treat, and to take no action inconsistent with the treatment of, the Notes as debt of the Issuer for tax purposes.

7. Notices. All notices and other communications hereunder shall be in writing and shall be sent by first class registered or certified mail, return receipt requested, or by facsimile transmission, provided such transmission is confirmed by overnight mail delivered by a nationally recognized overnight delivery service, addressed (a) if to the Purchaser, MetroWest Bank, 15 Park Avenue, Framingham, Massachusetts 01710-9111, Attention: Irene A. Schmitt, and (b) if to the Issuer or the Seller, c/o Litchfield Financial Corporation, 430 Main Street, Williamstown, Massachusetts 01267, Attention: Executive Vice President, or to such other address as the Issuer or the Seller shall have furnished to the Purchaser in writing. Any notice so given by registered or certified mail shall be deemed to have been given five days after being deposited in a depository of the United States mails. Any notice given by means of a nationally recognized overnight delivery service shall be deemed to have been given upon receipt thereof.

8. Miscellaneous. (a) This Purchase Agreement shall be construed and enforced in accordance with and governed by the law of the Commonwealth of Massachusetts and is executed as a sealed instrument.

(b) Any action or proceeding relating in any way to this Purchase Agreement may be brought and enforced in the courts of the Commonwealth of Massachusetts or of the United States for the Eastern District of Massachusetts and each of the Issuer, the Seller and the Purchaser irrevocably submits to the jurisdiction of each such court (and any appellate court from any thereof) in respect of any such action or proceeding.

Each of the Issuer, the Seller and the Purchaser irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any such action or proceeding in any state court of the Commonwealth of Massachusetts or the United States District Court for the Eastern District of Massachusetts, and any claim that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(c) This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof.

(d) The headings in this Purchase Agreement are for the purposes of reference only and shall not limit or define the meaning hereof.

(e) This Purchase Agreement shall be binding upon the respective successors and assigns of the parties hereto and shall inure to the benefit of and be enforceable by any registered owner or owners at the time of each Note then issued, or any part thereof. This Purchase Agreement may be assigned by the Purchaser to an eligible purchaser of the Notes in connection with a permitted transfer of the Notes in accordance with the Indenture.

(f) This Purchase Agreement may be amended, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such amendment, waiver, discharge or termination is sought.

(g) This Purchase Agreement may be executed simultaneously in several counterparts, or by different parties in separate counterparts, each of which counterparts shall be an original, but all of which shall constitute one instrument.

9. No Recourse. It is expressly understood and agreed by the parties hereto that (a) the representations, undertakings and agreements herein made on the part of the Issuer are made and intended not as personal representations, undertakings and agreements by the Seller but are made and intended for the purpose of binding only the Issuer, (b) nothing herein contained shall be construed as creating any liability on the Seller to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto, and (c) under no circumstances shall the Seller be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Agreement; it being understood that the foregoing shall in no way limit the obligations of the Seller under the Guarantee or the Purchase and Sale Agreement or with respect to its representations and warranties under this agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Purchase Agreement to be duly executed on the date first written above.

LITCHFIELD HYPOTHECATION CORP. 1998-A

By: /s/ Heather A. Sica
Name: HEATHER A. SICA
Title: Executive Vice President

LITCHFIELD FINANCIAL CORPORATION

By: /s/ Heather A. Sica
Name: HEATHER A. SICA
Title: Executive Vice President

METROWEST BANK

By: /s/ Irene A. Schmitt
Name: IRENE A SCHMITT
Title: President

Exhibit 10.182

Exhibit 10.184

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SCHEDULE I

Name, Address and Payment Provisions of Purchaser	Principal Amount Amount of Notes To Be Purchased
MetroWest Bank $2,625,786.95 Series A	

$2,374,213.05 Series C

(a) All payments on account of the Notes shall be made in immediately available funds at the opening of business on the due date by electronic funds transfer, properly identified, to the following account:

Bank: MetroWest Bank
ABA #:
Account #:
Attn:

Exhibit 13.1

Exhibit 11.1

Litchfield Financial Corporation
Computation of Earnings Per Share

	Year Ended December 31, 1998	1997	1996
Basic:			
Weighted average number of common shares outstanding.......	6,273,638	5,572,465	5,441,636
Income before extraordinary item	$8,832,000	$6,603,000	$5,273,000
Extraordinary item (net of tax benefit of $48,000 and $138,000 for 1998 and 1997, respectively)......	(77,000)	(220,000)	---
Net income..................	$8,755,000	$6,383,000	$5,273,000
Income before extraordinary item per common share.........	$ 1.41	$ 1.19	$ .97
Extraordinary item (net of tax benefit of $48,000 and $138,000 for 1998 and 1997, respectively)......	(.01)	(.04)	---
Net income per common share.	$ 1.40	1.15	.97
Diluted:			
Weighted average number of common shares outstanding.......	6,273,638	5,572,465	5,441,636
Weighted average number of common stock equivalents outstanding: Stock options............	330,729	336,967	240,516
Weighted average common and common equivalent shares outstanding.............	6,604,367	5,909,432	5,682,152
Income before extraordinary item	$8,832,000	$6,603,000	$5,273,000

Extraordinary item (net of tax benefit of $48,000 and $138,000 for 1998 and 1997, respectively)......	(77,000)	(220,000)	
Net income..................	$8,755,000	$6,383,000	$5,273,000
Income before extraordinary item per common share.........	$ 1.34	$ 1.12	$ .93
Extraordinary item (net of tax benefit of $48,000 and $138,000 for 1998 and 1997, respectively)......	(.01)	(.04)	---
Net income per common share.	$ 1.33	1.08	.93

(ANNUAL REPORT)

1998 ANNUAL REPORT

10 Year Anniversary
[graph showing eps]

Income Per Share Before Extraordinary Item

LITCHFIELD FINANCIAL CORPORATION is a diversified finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

Through the support of its investors and dedication of its employees, Litchfield has been able to provide quality service, maintain consistent growth and be among the top performers in the financial services industry. Litchfield's common stock trades on The Nasdaq Stock Market's National Market under the symbol "LTCH" and is listed in some newspapers as "LITCHFNL".

Revenue Growth

(000's)

[Graph showing Revenue Growth]

Dear Fellow Stockholders:

It is a great privilege to write this letter reviewing our 1998 results on this, the tenth anniversary of our founding and our tenth consecutive year of at least 20% earnings growth. Before starting to write this letter, I outlined key events of 1998, wrote down the fundamentals on which we base our business and reread our last several annual reports. In doing so, I was struck by the magnitude of our achievements, the strength of our fundamentals and the extraordinary consistency of our growth.

At the risk of repeating myself, 1998 was a record year for the Company. Our income and earnings per share, before extraordinary item, were up 34% and 20%, respectively. Our revenues were up 31%, while the percentage of our revenues derived from gain on sale of loans declined for the fourth straight year. Our overhead expenses as a percent of the serviced portfolio decreased to less than 2% of the portfolio for the first time. And while we managed dramatic growth in loan originations and the serviced portfolio, we decreased our delinquencies and charge-off rates as well. As we did in 1995, in 1998 we doubled our originations over the previous year. The corresponding growth in our loan portfolio, and the resulting increase in interest income, allowed us to offset the dilutive effect on earnings per share of our mid-year equity offering while we increased our cash revenues. The equity offering also added to the strength of our balance sheet and laid the groundwork for future growth.

These results reflect the strength of our team and our business model. We recruit, train, and retain outstanding people with intelligence, integrity and strong work ethics. It is gratifying to work with the talented people who make this company successful. A substantial part of the employee's net worth resides in the Company's continued success. Important elements in that success are our obsession with our business plan and our focus on consistent growth. We continue to concentrate on under-served niche markets like our land and timeshare businesses. We also apply our successful formula to new businesses such as our financial services business which experienced extraordinary growth in 1998.

In the same way, we look to expand into other niche markets with similar characteristics to propel our future growth. And, as always, we continue to tightly control the growth in our expenses.

We believe our Company is unique in the financial services business. Because we are frequently measured against many of the other public companies in the financial sector, it may be helpful to point out how we are different. First is our ten-year track record of consistent growth and profitability which demonstrates the strength of our management team and our focus on the fundamentals of our business. Second is our committed loan sale facilities at fixed spreads over commercial paper rates. These facilities enable us to continue to sell loans at a time when many finance companies face widening spreads and a lack of liquidity in the asset-backed lending market. Third is the cash positive nature of our loan sales. We generally buy our loans at a discount and derive proceeds not only from the sale of the loans, but also from pledging our retained interests in the loan sales. Fourth is our lower origination cost compared to many retail finance companies. We don't have to pay competitive premiums to brokers to channel loans to us. In fact, in many cases we are the exclusive source of financing to our dealer and developer network. Fifth, because we focus on under-served market niches, we can be selective in our underwriting. We lend money to customers who are good credit risks and, in most cases, these loans are supported by dealer reserves, guarantees or with conservative loan to value ratios and advance rates. Finally, we believe we are under- leveraged compared with our peers, so we have room to further increase our debt and improve our return on equity. We feel that all of these factors contribute to our achievements.

I would like to thank all of our shareholders as well as our employees, bondholders, lenders, customers and other partners for their continued support. We appreciate your enthusiasm for our business and we look forward to another rewarding year in 1999.

RANDY STRATTON
Chief Executive Officer and President

January 30, 1999

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except per share data)

	Year Ended December 31,				
Statement of Income Data (1):	1998	1997	1996	1995	1994
Revenues:					
Interest and fees on loans	$25,736	$19,374	$14,789	$ 11,392	$5,669
Gain on sale of loans	10,691	8,564	7,331	5,161	4,847
Servicing and other income	2,379	1,753	1,576	908	459
Total revenues	38,806	29,691	23,696	17,461	10,975
Expenses:					
Interest expense	14,265	10,675	7,197	6,138	3,158
Salaries and employee benefits	4,806	3,399	2,824	2,798	1,776
Other operating expenses	3,834	3,480	3,147	2,120	1,164
Provision for loan losses	1,532	1,400	1,954	890	559
Total expenses	24,437	18,954	15,122	11,946	6,657
Income before income taxes and extraordinary item	14,369	10,737	8,574	5,515	4,318
Provision for income taxes	5,537	4,134	3,301	2,066	1,619
Income before extraordinary item	8,832	6,603	5,273	3,449	2,699
Extraordinary item (2)	(77)	(220)	---	---	(126)
Net income	$8,755	$6,383	$5,273	$3,449	$2,573
Basic per common share amounts:					
Income before extraordinary item	$ 1.41	$ 1.19	$ .97	$ .80	$ .66
Extraordinary item	(.01)	(.04)	--	--	(.03)
Net income per share	$ 1.40	$ 1.15	$ .97	$ .80	$ .63
Basic weighted average number of shares outstanding	6,273,638	5,572,465	5,441,636	4,315,469	4,116,684
Diluted per common share amounts:					
Income before extraordinary item	$ 1.34	$ 1.12	$ .93	$ .76	$ .63
Extraordinary item	(.01)	(.04)	--	--	(.03)
Net income per share	$ 1.33	$ 1.08	$ .93	$ .76	$ .60
Diluted weighted average number of shares outstanding	6,604,367	5,909,432	5,682,152	4,524,607	4,282,884
Cash dividends declared per common share	$ .07	$ .06	$ .05	$ .04	$ .03

Other Statement of Income Data:

Income before extraordinary item as a percentage of revenues	22.8%	22.3%	22.3%	19.8%	24.6%
Ratio of EBITDA to interest expense (3)	2.13	2.17	2.90	2.44	3.31
Ratio of earnings to fixed charges (4)	2.01	2.01	2.19	1.90	2.37
Return on average assets (5)	3.7%	3.8%	4.0%	3.7%	4.6%
Return on average equity (5)	13.2%	14.1%	13.3%	16.6%	17.2%

(1) Certain amounts in the 1994 through 1996 financial information have been restated to conform to the 1997 and 1998 presentation.
(2) Reflects loss on early extinguishment of a portion of the 1992 Notes (as defined herein), net of applicable tax benefit of $76,000, for 1994, of the remainder of the 1992 Notes, net of applicable tax benefit of $138,000, for 1997, and of the term note payable, net of applicable tax benefit of $48,000, for 1998.
(3) The ratio of EBITDA to interest expense is required to be calculated for the twelve month period immediately preceding each calculation date, pursuant to the terms of the indentures to which the Company is subject. EBITDA is defined as earnings before deduction of taxes, depreciation, amortization, and interest expense (but after deduction for any extraordinary item).
(4) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes and extraordinary items and fixed charges. Fixed charges consist of interest charges and the amortization of debt expense.
(5) Calculations are based on income before extraordinary item.

SELECTED CONSOLIDATED FINANCIAL INFORMATION - (Continued)
(Dollars in thousands, except per share data)

	December 31,				
Balance Sheet Data (6):	1998	1997	1996	1995	1994
Total assets	$293,882	$186,790	$152,689	$112,459	$63,487
Loans held for sale (7)	19,750	16,366	12,260	14,380	11,094
Other loans (7)	191,292	86,307	79,996	33,613	15,790
Retained interests in loan sales (7)	28,883	30,299	28,912	22,594	11,996
Secured debt	50,521	5,387	43,727	9,836	5,823
Unsecured debt	134,588	105,347	46,995	47,401	29,896
Stockholders' equity	82,094	52,071	42,448	37,396	16,610

	Year Ended December 31,				
Other Financial Data:	1998	1997	1996	1995	1994
Loans purchased and originated (8)	$375,292	$184,660	$133,750	$121,046	$ 59,798
Loans sold (8)	144,762	98,747	54,936	65,115	40,116
Loans participated (8)	3,569	6,936	---	---	---
Serviced Portfolio (9)	466,912	304,102	242,445	176,650	105,013
Loans serviced for others	238,132	179,790	129,619	111,117	72,731
Dealer/developer reserves	9,979	10,655	10,628	9,644	6,575
Allowance for loan losses (10)	6,707	5,877	4,528	3,715	1,264
Allowance ratio (11)	1.44%	1.93%	1.87%	2.10%	1.20%
Delinquency ratio (12)	0.95%	1.20%	1.34%	1.73%	.93%
Net charge-off ratio (8)(13)	.58%	.74%	.94%	.67%	.38%
Non-performing asset ratio (14)	0.84%	1.03%	1.57%	1.35%	1.02%

(6) In 1997 the Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Consequently, certain amounts included in the 1994 through 1996 financial statements have been reclassified to conform with the 1997 and 1998 presentation:
"Subordinated pass through certificates held to maturity," "Excess servicing asset" and "Allowance for loans sold" have been reclassified as "Retained interests in loan sales." In addition, "Loans held for investment" have been reclassified as "Other loans."
(7) Amount indicated is net of allowance for losses and recourse obligation on retained interests in loan sales.
(8) During the relevant period.
(9) The Serviced Portfolio consists of the principal amount of loans serviced by or on behalf of the Company, except loans participated without recourse to the Company.
(10) The allowance for loan losses includes estimated recourse obligations for loans sold.
(11) The allowance ratio is the allowances for loan losses divided by the amount of the Serviced Portfolio.
(12) The delinquency ratio is the amount of delinquent loans divided by the amount of the Serviced Portfolio. Delinquent loans are those which are 31 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

(13) The net charge-off ratio is determined by dividing the amount of net charge-offs for the period by the average Serviced Portfolio for the period.
(14) The non-performing asset ratio is determined by dividing the sum of the amount of those loans which are 91 days or more past due and other real estate owned by the amount of the Serviced Portfolio.

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

Overview

Litchfield Financial Corporation (the "Company") is a diversified finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans, mortgages and construction loans and tax lien certificates, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

Land Loans are typically secured by one to twenty acre rural parcels. Land Loans are secured by property located in 36 states, predominantly in the southern United States. VOI Loans typically finance the purchase of ownership interests in fully furnished vacation properties. VOI Loans are secured by property located in 18 states, predominantly in California, Florida and Pennsylvania. The Company requires most dealers or developers from whom it buys loans to guarantee repayment or replacement of any loan in default. Ordinarily, the Company retains a percentage of the purchase price as a reserve until the loan is repaid.

The Company extends Hypothecation Loans to land dealers, resort developers and other finance companies secured by receivables. Hypothecation Loans typically have advance rates of 75% to 90% of the current balance of the pledged receivables and variable interest rates based on the prime rate plus 2.0% to 4.0%.

The Company also makes A&D Loans to land dealers and resort developers for the acquisition and development of rural land and timeshare resorts in order to finance additional receivables generated by the A&D Loans. At the time the Company makes A&D Loans, it typically receives an exclusive right to purchase or finance the related consumer receivables generated by the sale of the subdivided land or timeshare interests. A&D Loans typically have loan to value ratios of 60% to 80% and variable interest rates based on the prime rate plus 2.0% to 4.0%.

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains on sales of loans and (iii) servicing and other income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, 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.

	Year ended December 31,		
	1998	1997	1996
Revenues			
Interest and fees on loans........	66.3%	65.3%	62.4%
Gain on sale of loans.............	27.6	28.8	30.9
Servicing and other income........	6.1	5.9	6.7
	100.0	100.0	100.0
Expenses			
Interest expense..................	36.8	36.0	30.4
Salaries and employee benefits....	12.4	11.4	11.9
Other operating expenses..........	9.9	11.7	13.3
Provision for loan losses.........	3.9	4.7	8.2
	63.0	63.8	63.8
Income before income taxes and extraordinary item....................	37.0	36.2	36.2
Provision for income taxes............	14.2	13.9	13.9

Income before extraordinary item......	22.8	22.3	22.3
Extraordinary item, net...............	(0.2)	(0.8)	--
Net income............................	22.6%	21.5%	22.3%

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenues increased 30.7% to $38,806,000 for the year ended December 31, 1998, from $29,691,000 for the year ended December 31, 1997. Net income for the year ended December 31, 1998 increased 37.2% to $8,755,000 compared to $6,383,000 in 1997. Net income as a percentage of revenues was 22.6% for the year ended December 31, 1998 compared to 21.5% for the year ended December 31, 1997. Loan purchases and originations grew 103.2% to $375,292,000 in 1998 from $184,660,000 in 1997. The Serviced Portfolio increased 53.5% to $466,912,000 at December 31, 1998 from $304,102,000 at December 31, 1997.

Interest and fees on loans increased 32.8% to $25,736,000 in 1998 from $19,374,000 in 1997, primarily as the result of the higher average balance of other loans during the 1998 period. The average rate earned on the Serviced Portfolio decreased to 11.7% at December 31, 1998 from 12.2% at December 31, 1997, primarily due to the effect of the growth in Hypothecation Loans as a percentage of the portfolio and a decline in interest rates. Hypothecation Loan yields are usually less than Land Loan or VOI Loan yields, but servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 24.8% to $10,691,000 in 1998 from $8,564,000 in 1997. The volume of loans sold increased 46.6% to $144,762,000 for the year ended December 31, 1998 from $98,747,000 for the same period in 1997. Gain on sale of loans increased less than the volume of loans sold for the year ended December 31, 1998 primarily due to the increase in Hypothecation Loans sold. The yield on the sale of Hypothecation Loans is significantly less than the typical yield on sales of consumer receivables primarily due to shorter average maturities and the nature of the underlying collateral.
Servicing and other income increased 35.7% to $2,379,000 for the year ended December 31, 1998, from $1,753,000 for the year ended December 31, 1997 largely due to the increase in the other fee income including certain processing fees, prepayment penalties and income from an affiliate. Loans serviced for others increased 32.5% to $238,132,000 as of December 31, 1998 from $179,790,000 at December 31, 1997.

Interest expense increased 33.6% to $14,265,000 in 1998 from $10,675,000 in 1997. The increase in interest expense primarily reflects an increase in average borrowings which was only partially offset by lower rates. During the year ended December 31, 1998, the weighted average borrowings were $150,483,000 at an average rate of 8.7% compared to $107,900,000 at an average rate of 9.1% during the year ended December 31, 1997. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 41.4% to $4,806,000 for the year ended December 31, 1998 from $3,399,000 for the year ended December 31, 1997 because of an increase in the number of employees in 1998 and, to a lesser extent, an increase in salaries. Personnel costs as a percentage of revenues increased slightly to 12.4% in 1998 compared to 11.4% in 1997. However, as a percentage of the Serviced Portfolio, personnel costs decreased to 1.0% for the year ended December 31, 1998 from 1.1% for the year ended December 31, 1997. The increase in salaries and employee benefits was due in part to bringing customer service and collections in-house during 1998. This resulted in a decrease in third party servicing expenses included in other operating expenses. Total salaries and employee benefits plus other operating expenses as a percentage of revenues decreased in 1998 to 22.3% from 23.2% in 1997.

Other operating expenses increased 10.2% to $3,834,000 for the year ended December 31, 1998 from $3,480,000 for the year ended December 31, 1997. Other operating expenses increased due to the growth in the Serviced Portfolio that was only partially offset by the decrease in third party servicing expenses related to bringing customer service and collections in-house. As a percentage of revenues, other operating expenses decreased to 9.9% in 1998 from 11.7% in 1997. As a percentage of the Serviced Portfolio, other operating expenses decreased to 0.8% for the year ended December 31, 1998 compared to 1.1% for the year ended December 31, 1997.

During the year ended December 31, 1998, the provision for loan losses increased 9.4% to $1,532,000 from $1,400,000 for the year ended December 31, 1997 primarily due to the growth of the Serviced Portfolio.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues increased 25.3% to $29,691,000 for the year ended December 31, 1997, from $23,696,000 for the year ended December 31, 1996. Net income for 1997 increased 21.1% to $6,383,000 compared to $5,273,000 in 1996. Net income as a percentage of revenues was 21.5% for the year ended December 31, 1997 compared to 22.3% for the year ended December 31, 1996. Loan purchases and originations grew 38.1% to $184,660,000 in 1997 from $133,750,000 in 1996. The Serviced Portfolio increased 25.4% to $304,102,000 at December 31, 1997 from $242,445,000 at December 31, 1996.

Interest and fees on loans increased 31.0% to $19,374,000 in 1997 from $14,789,000 in 1996, primarily as the result of the higher average balance of loans held for sale and other loans during 1997. The average rate earned on loans owned and retained interests in loan sales decreased to 12.2% for the year ended December 31, 1997 from 12.5% for the year ended December 31, 1996, primarily due to the effect of the growth in Hypothecation Loans and A&D Loans as a percentage of the Serviced Portfolio. Hypothecation Loan and A&D Loan yields are usually less than Land Loan or VOI Loan yields, but servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 16.8% to $8,564,000 in 1997 from $7,331,000 in 1996. The volume of loans sold increased 79.7% to

$98,747,000 for the year ended 1997 from $54,936,000 for the same period in 1996. Gain on sale of loans increased less than the volume of loans sold for the year ended December 31, 1997 primarily due to the lower yield on the sale of Hypothecation Loans in 1997 and, to a lesser extent, the lower amount of discount relating to loans sold.

Servicing and other fee income increased 11.2% to $1,753,000 for the year ended December 31, 1997, from $1,576,000 for the year ended December 31, 1996 mostly due to the increase in other fee income resulting from the collection of significant prepayment penalties from a Hypothecation Loan and an A&D Loan in 1997. Although loans serviced for others increased 38.7% to $179,790,000 at December 31, 1997 from $129,619,000 at December 31, 1996, servicing income remained relatively constant due to a decrease in the average servicing fee per loan primarily as the result of the decrease in the number of purchased VOI Loans in the Serviced Portfolio.

Interest expense increased 48.3% to $10,675,000 for 1997, from $7,197,000 in 1996. The increase in interest expense primarily reflects an increase in average borrowings that were only partially offset by a decrease in average rates. During the year ended December 31, 1997, borrowings averaged $107,900,000 at an average rate of 9.1% compared to $71,800,000 and 9.3%, respectively, during 1996. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 20.4% to $3,399,000 for the year ended December 31, 1997 from $2,824,000 for the year ended December 31, 1996 because of an increase in the number of employees and, to a lesser extent, an increase in salaries. Personnel costs as a percentage of revenues decreased slightly to 11.4% for the year ended December 31, 1997 compared to 11.9% in 1996. As a percentage of the Serviced Portfolio, personnel costs decreased to 1.12% for the year ended December 31, 1997 from 1.16% for the same period in 1996.

Other operating expenses increased 10.6% to $3,480,000 for the year ended December 31, 1997 from $3,147,000 for the same period in 1996 primarily as the result of the growth in the Serviced Portfolio. As a percentage of revenues, other operating expenses decreased to 11.7% in 1997 compared to 13.3% in 1996. As a percentage of the Serviced Portfolio, other operating expenses decreased to 1.14% for 1997 from 1.30% for 1996.

During 1997, the provision for loan losses decreased 28.4% to $1,400,000 from $1,954,000 in 1996. The provision for loan losses decreased despite the increase in loans owned and retained interests in loans sold because of the growth in Hypothecation Loans as a percentage of the Serviced Portfolio. Hypothecation Loans have experienced significantly lower delinquency and default rates than Purchased 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 and payments of operating and interest expenses. The Company's primary sources of liquidity are loan sales, short-term borrowings under secured lines of credit and long-term debt and equity offerings.

Since its inception, the Company has sold $492,960,000 of loans at face value ($348,198,000 through December 31, 1997). The principal amount remaining on the loans sold was $238,132,000 at December 31, 1998 and $179,790,000 at December 31, 1997. In connection with certain loan sales, the Company commits to repurchase from investors any 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 $12,750,000 of loans at December 31, 1998 which the Company could be required to repurchase in the future should such loans become 90 days or more past due. The Company repurchased $491,000, $740,000 and $991,000 of such loans under the recourse provisions of loan sales 1998, 1997 and 1996, respectively. As of December 31, 1998, $25,685,000 of the Company's cash was restricted as credit enhancement for certain securitization programs. To date, the Company has participated $10,505,000 of A&D and Other Loans without recourse to the Company ($6,936,000 through December 31, 1997).

The Company funds its loan purchases in part with borrowings under various 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. These lines of credit totaled $116,000,000 at December 31, 1998 and December 31, 1997. Outstanding borrowings on these lines of credit were $49,021,000 at December 31, 1998. Interest rates on these lines of credit range from the Eurodollar or LIBOR rate plus 2% to the prime rate plus 1.25%. The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

The Company also finances its loan purchases with two revolving line of credit and sale facilities as part of asset backed commercial paper facilities with multi-seller commercial paper issuers. Such facilities totaled $175,000,000 at December 31, 1998 and $150,000,000 at December 31, 1997. As of December 31, 1998 and December 31, 1997, the outstanding balances of loans sold or pledged under these facilities were $148,164,000 and $121,142,000, respectively. There were no outstanding borrowings under these lines of credit at December 31, 1998. Outstanding borrowings under these lines of credit were $169,000 at December 31, 1997. Interest is payable on these lines of credit based on certain commercial paper rates.

In June 1998, the Company issued 1,000,000 shares of common stock at $19 per share. The net proceeds of the offering were $17,717,000 and were used to pay down certain lines of credit. In connection with the underwriters' option to purchase additional shares to cover over-allotments, the Company issued an additional 166,500 shares in July 1998. Net proceeds of these shares totaled $2,990,000 and were also used to pay down certain lines of credit.

The Company also finances its liquidity needs with long-term debt. Long-term debt totaled $134,588,000 at December 31, 1998 and $105,347,000 at December 31, 1997.

In September of 1998, the Company redeemed a term note of $3,265,000 resulting in an extraordinary loss of $77,000, net of applicable tax benefit of $48,000. The note was collateralized by certain of the Company's retained interests in loan sales and cash. The balance outstanding on the note was $5,210,000 at December 31, 1997.

In June 1997, the Company entered into two interest rate swap agreements. The swap agreements involve the payment of interest to the counterparty at the prime rate on a notional amount of $110,000,000 and the receipt of interest at the commercial paper rate plus a spread and the LIBOR rate plus a spread on notional amounts of $80,000,000 and $30,000,000, respectively. The swap agreements expire in June 2000. There is no exchange of the notional amounts upon which interest payments are based.

In June, 1994, the Company entered into an interest rate cap agreement with a bank in order to manage its exposure to certain increases in interest rates. The interest rate cap entitles the Company to receive an amount, based on an amortizing notional amount, which at December 31, 1998 was $3,670,000, when commercial paper rates exceed 8%. If payments were to be received as a result of the cap agreement, they would be accrued as a reduction of interest expense. This agreement expires in July 2003.

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 estimated future losses on such assets. Past-due loans (loans 31 days or more past due which are not covered by dealer/developer reserves and guarantees) as a percentage of the Serviced Portfolio as of December 31, 1998, decreased to 0.95% from 1.20% at December 31, 1997. 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. When the Company does not receive guarantees on loan portfolios purchased, it adjusts its purchase price to reflect anticipated losses and its required yield. This purchase adjustment is recorded as an increase in the allowance for loan losses and is used only for the respective portfolio. A provision for loan losses is recorded in an amount deemed sufficient 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 $6,707,000 at December 31, 1998 compared to $5,877,000 at December 31, 1997. The allowance ratio (the allowances for loan losses divided by the amount of the Serviced Portfolio) at December 31, 1998 decreased to 1.44% from 1.93% at December 31, 1997 primarily as a result of the increase in Hypothecation Loans as a percentage of the Serviced Portfolio.

As part of the Company's financing of Purchased 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 Purchased 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 $9,979,000 and $10,655,000 at December 31, 1998 and December 31, 1997, respectively. The Company generally returns any excess reserves to the dealer/developer on a quarterly basis as the related loans are repaid by borrowers.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with "Year 2000" requirements.

State of Readiness. The year 2000 readiness process consists of the following phases: (i) identification of all IT Systems and non-IT Systems; (ii) assessment of repair or replacement requirements; (iii) repair or replacement; (iv) testing; (v) implementation; and (vi) creation of contingency plans in the event of year 2000 failures. The Company has evaluated the year 2000 readiness of the information technology systems used in its operations ("IT Systems") and its non-IT Systems, such as building security, voice mail and other systems. Non-compliant IT Systems and non-IT Systems are expected to be remediated by the end of the second quarter of 1999.

The Company's current financial and accounting software was installed in October 1998, and the supplier has informed the Company that such software is year 2000 compliant. The Company uses a third party servicer to perform certain functions, such as receipt and posting of loan payments and other loan related activity. The third party servicer has represented to the Company that its systems are year 2000 compliant. In addition, the Company relies upon various vendors, governmental agencies, utility companies, telecommunication service companies, delivery service companies and other service providers who are outside of its control. There is no assurance that such parties will not suffer a year 2000 business disruption, which could have a material adverse effect on the Company's financial condition and results of operations.

During 1998, the Company circulated a questionnaire to vendors and customers with whom the Company has material relationships to obtain information about year 2000 compliance. The Company is still receiving and evaluating this information to identify any significant risks. We plan to require all our business partners to address any significant risks by July 1, 1999. We plan to replace any material non-compliant business partners by October 1, 1999.

Costs. To date, the Company has not incurred any material expenditures in connection with identifying or evaluating year 2000 compliance issues. Most of its expenses have related to the opportunity cost of time spent by employees of the Company evaluating year 2000 compliance matters generally. The Company believes that internally generated funds or available cash should be sufficient to cover the projected costs associated with any modifications to existing software to make it year 2000 compliant. However, no assurances can be given that such modifications can be made in a timely and cost effective manner. Failure to make timely modifications could, in a worse case scenario, result in the inability to process loans and loan related data and could have a material adverse effect on the Company. At this time, the Company does not possess the information necessary to estimate the potential impact of year 2000 compliance issues relating to its other IT-Systems, non-IT Systems, its vendors, its customers, and other parties. Such impact, including the effect of a year 2000 business disruption, could have a material adverse effect on the Company's financial condition and results of operations.

Contingency Plan. The Company has not yet developed a year 2000-specific contingency plan. If further year 2000 compliance issues are discovered, the Company then will evaluate the need for one or more contingency plans relating to such issues.

Market for Common Stock

The Company's Common Stock is traded on The Nasdaq Stock Market's National Market under the symbol "LTCH." The following table sets forth, for the periods indicated, the high and low stock prices of the Company's Common Stock. All share prices have been adjusted for a 5% stock dividend in 1996.

	High	Low	Dividends
1998			
4th Quarter..........	19 5/8	9 1/4	$.07
3rd Quarter..........	22 3/4	15	--
2nd Quarter..........	24	18 1/4	--
1st Quarter..........	24	17 1/2	--
1997			
4th Quarter..........	21 1/2	16 1/2	$.06
3rd Quarter..........	21 3/4	16 3/8	--
2nd Quarter..........	17	13 7/8	--
1st Quarter..........	16 3/4	14	--
1996			
4th Quarter..........	15	12 1/2	$.05
3rd Quarter..........	15	11 1/2	--
2nd Quarter..........	14 1/4	12 7/8	--
1st Quarter..........	13 5/8	11	--

Inflation

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

Exposure to Market Risk

The Company performs an interest rate sensitivity analysis to identify the potential interest rate exposures. Specific interest rate risks analyzed include asset/liability mismatches, basis risk, risk caused by floors and caps, duration mismatches and re-pricing lag in response to changes in a base index.

A simulated earnings model is used to identify the impact of specific interest rate movements on earnings per share for the next 12 months. The model incorporates management's expectations about future origination levels, origination mix, amortization rates, prepayment speeds, timing of loan sales, timing of capital issues, extensions and/or increases in lines of credit, pricing of originations and cost of debt and lines of credit.

The Company's objective in managing the interest rate exposures is to maintain, at a reasonable level, the impact on earnings per share of an immediate and sustained change of 100 basis points in interest rates in either direction. The Company periodically reviews the interest rate risk and various options such as capital structuring, product pricing, hedging and spread analysis to manage the interest rate risk at reasonable levels.

As of December 31, 1998, the Company had the following estimated sensitivity profile:

Interest rate changes (in basis points)	100	(100)
Impact on earnings per share	($0.02)	$0.06
Impact on interest income and pre-tax earnings	($136,000)	$425,000

Forward-looking Statements

Except for the historical information contained or incorporated by reference in this annual report, the matters discussed or incorporated by reference herein are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risk factors set forth under "Risk Factors", as listed in the 1998 Form 10-K, as well as the following: general economic and business conditions; industry trends; changes in business strategy or development plans; availability and quality of management; and availability, terms and deployment of capital. Special attention should be paid to such forward-looking statements including, but not limited to, statements relating to (i) the Company's ability to execute its growth strategies and to realize its growth objectives and (ii) the Company's ability to obtain sufficient resources to finance its working capital needs and provide for its known obligations.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 1998	1997
ASSETS		
Cash and cash equivalents......................	$ 10,537	$ 19,295
Restricted cash................................	27,898	23,496
Loans held for sale, net of allowance for loan losses of $549 in 1998 and $1,388 in 1997............	19,750	16,366
Other loans, net of allowance for loan losses of $2,477 in 1998 and $2,044 in 1997..........	191,292	86,307
Retained interests in loan sales, net of estimated recourse obligations $3,681 in 1998 and $2,445 in 1997..........	28,883	30,299
Other..	15,522	11,027
Total assets............................	$293,882	$186,790
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Lines of credit............................	$ 49,021	$ 177
Term note payable and mortgage payable......	1,500	5,210
Accounts payable and accrued liabilities....	8,312	6,479
Dealer/developer reserves..................	9,979	10,655
Deferred income taxes......................	8,388	6,851
Long-term notes............................	134,588	105,347
	211,788	134,719
Stockholders' equity		
Preferred stock, $.01 par value; authorized 1,000,000 shares, none issued and outstanding..	---	---
Common stock, $.01 par value; authorized 12,000,000 shares, 6,886,329 shares issued and outstanding in 1998 and 5,656,609 shares issued and outstanding in 1997	69	56
Additional paid in capital....................	58,040	36,681
Accumulated other comprehensive income.........	1,250	1,071
Retained earnings	22,735	14,263
Total stockholders' equity.................	82,094	52,071
Total liabilities and stockholders' equity..	$293,882	$186,790

See accompanying notes to consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Income
(In thousands, except share and per share amounts)

	Year Ended December 31, 1998	1997	1996
Revenues:			

Interest and fees on loans	$25,736	$19,374	$14,789
Gain on sale of loans	10,691	8,564	7,331
Servicing and other income	2,379	1,753	1,576
	38,806	29,691	23,696
Expenses:			
Interest Expense	14,265	10,675	7,197
Salaries and employee benefits	4,806	3,399	2,824
Other operating expenses	3,834	3,480	3,147
Provision for loan losses	1,532	1,400	1,954
	24,437	18,954	15,122
Income before income taxes and extraordinary item	14,369	10,737	8,574
Provision for income taxes	5,537	4,134	3,301
Income before extraordinary item	8,832	6,603	5,273
Extraordinary item (net of tax benefit of $48 and $138 for 1998 and 1997, respectively)	(77)	(220)	---
Net Income	$ 8,755	$ 6,383	$ 5,273
Basic per common share amounts:			
Income before extraordinary item	$ 1.41	$ 1.19	$ .97
Extraordinary item	(.01)	(.04)	--
Net income	$ 1.40	$ 1.15	$ .97
Basic weighted average number of shares	6,273,638	5,572,465	5,441,636
Diluted per common share amounts:			
Income before extraordinary item	$ 1.34	$ 1.12	$ .93
Extraordinary item	(.01)	(.04)	--
Net income	$ 1.33	$ 1.08	$ .93
Diluted weighted average number of shares	6,604,367	5,909,432	5,682,152

See accompanying notes to consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statement of Stockholders' Equity
(In thousands, except share and per share amounts)

	Common Stock	Additional Paid In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance, December 31, 1995	$52	$31,873	$ --	$6,065	$(594)	$37,396
Issuance of 259,124 shares in connection with 5% stock dividend	3	3,301	--	(3,304)	--	--
Issuance of 10,560 shares (including reissuance of 10 shares held in treasury)	--	52	--	--	--	52
Retirement of 48,990 shares held in treasury	(1)	(593)	--	--	594	--
Dividends ($.05 per share)	--	--	--	(273)	--	(273)
Net income	--	--	--	5,273	--	5,273
Balance, December 31, 1996	54	34,633	--	7,761	--	42,448
Issuance of 212,210 shares	2	2,048	--	--	--	2,050
Other comprehensive income	--	--	1,071	--	--	1,071
Tax benefit from stock options exercised	--	--	--	458	--	458
Dividends ($.06 per share)	--	--	--	(339)	--	(339)
Net income	--	--	--	6,383	--	6,383
Balance, December 31, 1997	56	36,681	1,071	14,263	--	52,071
Issuance of 1,229,720 shares	13	21,359	--	--	--	21,372
Other comprehensive income	--	--	179	--	--	179
Tax benefit from stock options exercised	--	--	--	196	--	196
Dividends ($.07 per share)	--	--	--	(479)	--	(479)
Net income	--	--	--	8,755	--	8,755
Balance, December 31, 1998	$69	$58,040	$1,250	$22,735	$ --	$82,094

See accompanying notes to consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Comprehensive Income
(In thousands)

	Year ended December 31, 1998	1997	1996
Net income	$8,755	$6,383	$5,273
Other comprehensive income, net of tax:			
Unrealized gains on retained interests in loan sales (net of taxes of $112 and $670 for 1998 and 1997, respectively)	179	1,071	--
Comprehensive income	$8,934	$7,454	$5,273

See accompanying notes to consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net income	$ 8,755	$ 6,383	$ 5,273
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Gain on sale of loans	(10,691)	(8,564)	(7,331)
Amortization and depreciation	1,015	954	520
Amortization of retained interests in loan sales	6,549	4,945	3,444
Provision for loan losses	1,532	1,400	1,954
Deferred income taxes	1,537	1,771	1,340
Net changes in operating assets and liabilities:			
Restricted cash	(4,402)	(4,573)	(2,578)
Loans held for sale	(1,546)	(3,644)	3,008
Retained interests in loan sales	(3,081)	(2,264)	(4,868)
Dealer/developer reserves	(676)	27	984
Net change in other assets and liabilities	(1,192)	1,456	(1,373)
Net cash (used in) provided by operating activities	(2,200)	(2,109)	373
Cash flows from investing activities:			
Net originations, purchases and principal payments on other loans	(188,544)	(54,882)	(47,170)
Other loans sold	83,126	47,727	--
Collections on retained interests in loan sales	6,505	4,620	590
Capital expenditures and other assets	(2,913)	(3,341)	(8)
Net cash used in investing activities	(101,826)	(5,876)	(46,588)
Cash flows from financing activities:			
Net borrowings (payments) on lines of credit	48,844	(36,122)	36,299
Net payments on term note	(3,710)	(2,218)	(2,408)
Net proceeds from long term debt	29,241	58,352	(406)
Net proceeds from issuance of common stock	21,372	2,050	52
Dividends paid	(479)	(339)	(273)
Net cash provided by financing activities	95,268	21,273	33,264
Net (decrease) increase in cash and cash equivalents	(8,758)	13,738	(12,951)
Cash and cash equivalents, beginning of year	19,295	5,557	18,508
Cash and cash equivalents, end of year	$10,537	$19,295	$ 5,557
Supplemental Schedule on Noncash Financing and Investing Activities:			
Exchange of loans for retained interests in loan sales	$ 837	$ 577	$ 3,540
Transfers from loans to real estate acquired through foreclosure	$ 1,817	$ 1,425	$ 1,654
Supplemental Cash Flow Information:			
Interest paid	$13,419	$ 9,841	$ 6,674
Income taxes paid	$ 2,639	$ 2,656	$ 1,411

See accompanying notes to consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

1. Summary of Significant Accounting Policies

Business

Litchfield Financial Corporation is a diversified finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets. The Company considers its activities to be one operating segment.

Basis of Presentation

The consolidated financial statements include the accounts of Litchfield Financial Corporation and its majority and wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

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

Interest income

Interest income from loans and retained interests in loan sales is recognized using the interest method. Accrual of interest is suspended when collection is doubtful and, in any event, when a loan is contractually delinquent for ninety days. The accrual is resumed when the loan becomes contractually current as to principal and interest and past-due interest is recognized at that time.
Gain on sale of loans and retained interests in loan sales

As of January 1, 1997, 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. In December, 1998, the Financial Accounting Standards Board issued a Special Report "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - Questions and Answers". As a result, the Company modified its gain-on-sale accounting in the fourth quarter to include, among other things, adoption of a "cash-out" method of accounting. In evaluating the gain-on-sale of prior transactions, the Company determined that the impact of the modifications, including the adoption of the "cash out" method of accounting, to be immaterial.

Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. 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 consists of subordinate portions of the principal balance of transferred assets and interest only strips.

The Company estimates fair value using discounted cash flow analysis, since quoted market prices are not readily available. The Company's analysis incorporates estimates that market participants would be expected to use in their estimates of future cash flows, including assumptions about interest rates, defaults and prepayment rates. Estimates made are based on, among other things, the Company's past experience with similar types of financial assets. The interest rates paid to investors range from 6.5% to 9.0%. The prepayment rates were 17.5% for Land Loan sales and 18.0% for VOI Loan sales. For the Hypothecation Loan sales, the prepayment rates for the underlying collateral used were 17.5% for Land Loans and 18.0% for VOI Loans. The Company estimates default rates to be 1.9% on Land Loans, 3.0% on VOI Loans and 0.5% on Hypothecation Loans. In valuing its retained interests in loan sales, the Company selects discount rates commensurate with the duration and risks embedded in the particular assets. Specifically, the Company uses discount rates ranging from the investor pass-through rates (for restricted cash) to the Baa corporate bond rate plus 325 basis points (for interest only strips and retained principal certificates) to estimate the fair value of its retained interests.

There is no servicing asset or liability arising from loan sales, because the Company estimates that the benefits of servicing approximate the costs to meet its servicing responsibilities.

On a quarterly basis, the Company assesses the carrying value of retained interest in loans sold by comparing actual and assumed prepayment rates on a disaggregated basis reflecting factors such as origination dates and types of loans. The Company adjusts the carrying value of retained interests for unfavorable changes considered other than temporary.

Loans

Loans held for sale are carried at the lower of aggregate cost or market value. Market value is determined by outstanding commitments from investors or current investor yield requirements.

Provisions for loan losses and impairment of loans

Provisions for loan losses are charged to income in amounts sufficient to maintain the allowances at levels considered adequate to cover anticipated losses on outstanding loans, including loans sold and retained interests in loan sales. Management evaluates allowance requirements on a quarterly basis by examining current delinquencies, historical loan losses, the value of the underlying collateral and general economic conditions and trends. Management also evaluates the availability of dealer/developer reserves to absorb loan losses. The Company determines those loans that are uncollectible based upon detailed review of all loans and any charge-offs are charged to the allowance for loan losses.

Land Loans, VOI Loans and Other Loans which consist of large groups of smaller balance loans are evaluated collectively for impairment and are stated at the lower of cost or fair value.

Hypothecation Loans and A&D Loans are evaluated individually for impairment based on the factors previously described. No such loans were impaired at December 31, 1998 or 1997.

Loan origination fees and related costs

The Company defers the excess of loan origination fees over related direct costs and recognizes such amount as interest income over the estimated life of the related loans using the interest method.

Real estate acquired through foreclosure

Real estate acquired through foreclosure is carried at the lower of fair value less estimated costs to sell or cost. On a quarterly basis, the Company evaluates the carrying value of the real estate and establishes a valuation allowance if the fair value of the asset less the estimated costs to sell the asset is less than the carrying value of the asset. Subsequent increases in the fair value less the estimated cost to sell the asset would reduce the valuation allowance, but not below zero. There was no such valuation allowance at December 31, 1998 or 1997. Other real estate owned of $757,000 and $910,000 is included in other assets at December 31, 1998 and 1997, respectively.

Dealer/developer reserves

As part of the Company's financing of loans through dealer/developers, the Company retains a portion of the proceeds from the purchased loans as a reserve to offset potential losses on those loans. The Company negotiates the amount of reserves with the dealer/developers based upon various criteria, including the credit risk associated with the dealer/developer and the loans being purchased. The Company generally returns any excess reserves to the dealer/developer on a quarterly basis as the related loans are repaid by borrowers.

Income taxes

The Company uses the liability method of accounting for income taxes in its financial statements.

Net income per common share

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and stock award grants were exercised.

Cash and cash equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.
Restricted cash

Restricted cash represents accounts established as credit enhancements for certain loan sales and escrow deposits held for customers.

Deferred debt issuance costs

Deferred debt issuance costs are amortized over the life of the related debt. The unamortized balance of $3,883,000 and $3,336,000 is included in other assets at December 31, 1998 and 1997, respectively. The amount of the accumulated amortization was $2,596,000 and $1,868,000 at December 31, 1998 and 1997, respectively.

Stock-based compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation." The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Reclassification

Certain amounts in the 1996 financial statements have been reclassified to conform with the 1997 and 1998 presentations.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 ("Statement No. 130"), "Reporting Comprehensive Income". Statement No. 130 establishes new rules for the reporting and display of comprehensive income and its components.

Statement No. 130 requires unrealized gains or losses on the Company's available-for-sale securities, previously required to be reported as a separate component of stockholder's equity, to be included in other comprehensive income and the disclosure of accumulated comprehensive income. Statement No. 130 also requires that other comprehensive income items and comprehensive income be displayed separately in the financial statements.

New accounting standards

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("Statement No. 133"), "Accounting for Derivative Instruments and Hedging Activities." Statement No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999, with early adoption permitted as of the beginning of any quarter after the date of issuance. Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The provisions of Statement No. 133 can not be applied retroactively to financial statements of prior periods.

The Company plans to adopt Statement No. 133 in the fiscal quarter beginning January 1, 2000. At the date of initial application, the Company must recognize any freestanding derivative instruments in the balance sheet as either assets or liabilities and measure them at fair value. The Company shall also recognize offsetting gains and losses on hedged assets, liabilities, and firm commitments by adjusting their carrying amounts at that date as a cumulative effect of a change in accounting principal. Whether such transition adjustment is reported in net income, other comprehensive income, or allocated between both is based on the hedging relationships, if any, that existed for that derivative instrument and were the basis for accounting prior to the application of Statement No. 133. (See Note 5 for disclosure of the Company's derivative activity).

2. Investments and Retained Interests in Loan Sales

The following is a summary of investments and retained interests in loan sales:

(Dollars in thousands) December 31, 1998	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities..	$ 44	$ --	$ --	$ 44
Retained interests in loan sales.......................	31,314	1,250	--	32,564
Total.....................	$31,358	$1,250	$ --	$32,608

(Dollars in thousands) December 31, 1997	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities..	$ 83	$ --	$ --	$ 83
Retained interests in loan sales.......................	31,673	1,071	--	32,744
Total......	$31,756	$1,071	$ --	$32,827

The amortized cost and estimated fair value of investments and retained interests in loan sales at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities are included in other assets.

(Dollars in thousands)	Cost	Estimated Fair Value
Due in one year or less.........	$ 9,760	$ 9,760
Due after one year through years...........................	21,598	22,848
Total debt securities.........	$31,358	$32,608

In 1990, the Company began privately placing issues of pass-through certificates evidencing an undivided beneficial ownership interest in pools of loans which have been transferred to trusts. The principal and part of the interest payments on the loans transferred to the trust are collected by the Company, as the servicer of the loan pool, remitted to the trust for the benefit of the investors, and then distributed by the trust to the investors in the pass-through certificates.

In certain of the Company's issues of pass-through certificates, credit enhancement was achieved by dividing the issue into a senior portion which was sold to the investors and a subordinated portion which was retained by the Company. The Company had investments in pass-through certificates of $12,323,000 and $15,747,000 at December 31, 1998 and 1997, respectively. In certain other of the Company's private placements, credit enhancement was achieved through cash collateral. The Company had $25,685,000 and $21,412,000 of restricted cash at December 31, 1998 and 1997, respectively, representing credit enhancements.

If borrowers default in the payment of principal or interest on the mortgage loans underlying these issues of pass-through certificates, losses would be absorbed first by the subordinated portion or cash collateral account retained by the Company and might, therefore, have to be charged against the estimated recourse obligations to the extent dealer/developer guarantees and reserves are not available.

3. Loans

Loans at December 31 consisted of the following:

(Dollars in thousands)	December 31,	
Loans held for sale	1998	1997
Land............	$ 4,729	$10,333
VOI.............	1,203	3,134
Other...........	14,531	4,520
Discount, net...	(164)	(233)
Allowance for loan losses......	(549)	(1,388)
Loans, net......	$19,750	$16,366

(Dollars in thousands)	December 31,	
Other loans	1998	1997
Land....................	$ 2,307	$ 1,911
VOI.....................	569	793
Hypothecation...........	69,815	36,206
A&D.....................	51,986	41,385
Tax Liens...............	21,228	---
Builder Construction.....	33,867	---
Other...................	14,078	8,631
Discount, net...........	(81)	(575)
Allowance for loan losses	(2,477)	(2,044)
Loans, net.............	$191,292	$86,307

Contractual maturities of loans as of December 31, 1998 are as follows:

(Dollars in thousands)	December 31, 1998
1999.................	55,726
2000.................	5,716
2001.................	16,925
2002.................	53,035
Thereafter...........	82,911
	$214,313

It is the Company's experience that a substantial portion of the loans will be repaid before contractual maturity dates. Consequently, the above tabulation is not to be regarded as a forecast of future cash collections.

4. Allowances for Loan Losses and Estimated Recourse Obligations

An analysis of the total allowances for all loan losses and recourse obligations follows:

(Dollars in thousands)	December 31, 1998	1997
Allowance for losses on loans held for sale............	$ 549	$1,388
Allowance for losses on other loans....................	2,477	2,044
Estimated recourse obligation on retained interests in loan sales.....................	3,681	2,445
	$6,707	$5,877

The total allowance for loan losses consists of the following:

(Dollars in thousands)	Year ended December 31, 1998	1997	1996
Allowance at beginning of period............	$5,877	$4,528	$3,715
Net charge-offs of uncollectible accounts..............	(2,239)	(2,010)	(1,965)
Provision for loan losses	1,532	1,400	1,954
Allocation of purchase adjustment (1)......	1,537	1,959	824
Allowance at end of period..........	$6,707	$5,877	$4,528

(1) Represents allocation of purchase adjustment related to the purchase of certain nonguaranteed loans.

Net charge-offs by major loan and collateral types experienced by the Company are summarized as follows:

(Dollars in thousands)	Year ended December 31, 1998	1997	1996
Land..................	$ 1,358	$ 986	$ 669
VOI...................	556	939	1,284
Hypothecation.........	---	---	---
A&D...................	---	(2)	(8)
Other.................	325	87	20
Total.................	$2,239	$2,010	$1,965

5. Derivative Financial Instruments Held for Purposes Other than Trading

In June 1997, the Company entered into two interest rate swap agreements in order to manage its basis exposures. The swap agreements involve the payment of interest to the counterparty at the prime rate on a notional amount of $110,000,000 and the receipt of interest at the commercial paper rate plus a spread of 277 basis points on a notional amount of $80,000,000 and the LIBOR rate plus a spread of 267 basis points on notional amount of $30,000,000. The swap agreements expire in June 2000. There is no exchange of the notional amounts upon which the interest payments are based.

The differential to be paid or received as interest rates change is accrued and recognized as an adjustment to interest income from the excess servicing asset. The related amount receivable from or payable to the counterparty is included in other assets or other liabilities. The fair values of the swap agreements are not recognized in the financial statements. The Company intends to keep the contracts in effect until they mature in June 2000.

In June 1994, the Company entered into an interest rate cap agreement with a bank in order to manage its exposure to certain increases in interest rates. The interest rate cap entitles the Company to receive payments, based on an amortizing notional amount, when commercial paper rates exceed 8.0%. If payments were to be received as a result of the cap agreement, they would be accrued as a reduction of interest expense. The notional amount outstanding at December 31, 1998 was $3,670,000. This agreement expires in July 2005.

The Company is exposed to credit loss in the event of non-performance by the swap counterparty or the cap provider.

6. Debt

Financial data relating to the Company's secured lines of credit is as follows:

(Dollars in thousands)	December 31, 1998	1997
Lines of credit available (1)..	$116,000	$116,169
Borrowings outstanding at end of year (1)..................	$ 49,021	$ 169

Weighted average interest rate at end of year	7.6%	7.7%
Maximum borrowings outstanding at any month end	$ 73,666	$ 50,577
Average amount outstanding during the year	$ 37,485	$ 33,419
Weighted average interest rate during the year (determined by dividing interest expense by average borrowings)	7.9%	8.2%

(1) Amount includes $169 of outstanding borrowings at December 31, 1997 on the revolving line of credit with multi-seller commercial paper issuer. (See Note 11.) Amount does not include $1,500 construction mortgage.

In January 1999, the Company amended a secured line of credit to increase the line from $50,000,000 to $60,000,000. Outstanding borrowings under the line of credit at December 31, 1998 were $39,700,000. There were no outstanding borrowings under this line of credit at December 31, 1997. This line of credit is secured by consumer receivables and other secured loans and matures in April 2000.

In December 1997, the Company amended a line of credit to increase the line from $20,000,000 to $30,000,000. There were no outstanding borrowings under this facility at December 31, 1998 and 1997. This facility is secured by certain retained interests in loan sales, cash collateral accounts and certain other loans and matures in September 1999.

In March 1997, the Company entered into a $25,000,000 secured line of credit. Outstanding borrowings under the line of credit at December 31, 1998 were $9,321,000. There were no outstanding borrowings at December 31, 1997. The facility is secured by loans to developers of VOI resorts, popularly known as timeshare resorts, for the acquisition and development of VOI resorts ("Facility A") and the related financing of consumer purchases of VOIs ("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.

In January 1997, the Company amended a line of credit to increase the line from $5,000,000 to $8,000,000. This line of credit is secured by consumer receivables and other secured loans and matures in March 1999. There were no outstanding borrowings on this line of credit at December 31, 1998 and 1997.

In March 1998, the Company renewed an additional $3,000,000 line of credit, secured by consumer receivables and other secured loans. This line of credit matures in March 1999. There were no outstanding borrowings at December 31, 1998 and 1997.

Also in March 1998, the Company amended the $1,500,000 construction mortgage, secured by certain assets of the Company, extending the maturity date to March 2009. Outstanding borrowings under this construction mortgage were $1,500,000 and $8,000 at December 31, 1998 and 1997, respectively.

Interest rates on the above lines of credit range from the Eurodollar or LIBOR rate plus 2% to the prime rate plus 1.25%. The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

In September 1998, the Company redeemed a term note of $3,265,000 resulting in an extraordinary loss of $77,000, net of applicable tax benefit of $48,000. The note was collateralized by certain of the Company's retained interests in loan sales and cash. The balance outstanding on the note was $5,210,000 at December 31, 1997.

As of December 31, 1998 and 1997 the Company had no unsecured lines of credit.

Financial data relating to the Company's long-term notes is as follows:

	December 31,	
(Dollars in thousands)	1998	1997
9.3% Notes	$ 20,000	$ 20,000
8.45% Notes due 2002	51,282	51,750
8.875% Notes due 2003	15,066	15,317
8.25% Notes due 2003	10,000	---
9.25% Notes due 2004	20,000	---
10% Notes due 2004	18,240	18,280
	$134,588	$105,347

The long-term notes are unsecured obligations of the Company and each issuance, except the 9.3% Notes, allows for a maximum annual redemption by noteholders of 5% of the original principal amount thereof. Interest is payable monthly in arrears on each of the issuances, except the 9.3% Notes.

The 9.3% Notes require principal reductions of $7,500,000, $6,000,000, $6,000,000 and $500,000 in March 2001, 2002, 2003 and 2004, respectively. Interest is payable semiannually in arrears.

The Company shall have the option to redeem all or any portion of the long-term notes at predetermined redemption prices. The earliest call date of each issuance is as follows:

9.3% Notes..............	April 1998
8.45% Notes due 2002.....	November 1999
8.875% Notes due 2003....	June 1996
8.25% Notes due 2003.....	November 2000
9.25% Notes due 2004.....	December 2000
10% Notes due 2004.......	April 1998

7. Retirement Plans

The Company has implemented the Litchfield Financial Corporation Employee 401(k) Plan ("the Plan"), a defined contribution plan for all eligible employees at least 21 years of age and who have been employed by the Company for at least six months. Participating employees may elect to defer up to fifteen percent of their annual gross earnings. The Company will match an amount equal to one hundred percent of the employee's pretax contributions up to five percent of the employee's eligible compensation contributed into the Plan. Contributions made by the Company in 1998 and 1997 were $157,000 and $125,000, respectively.

8. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
(Dollars in thousands)	1998	1997
Deferred Tax Assets:		
Loan loss allowance....	$ 244	$ 44
Other..................	656	697
Total deferred tax assets...................	900	741
Valuation allowance..	---	---
Net deferred tax assets.............	900	741
Deferred Tax Liabilities:		
Depreciation...........	42	50
Mortgage loan income recognition..........	7,265	6,131
Accretion income.......	1,696	1,360
Other..................	285	51
Tax deferred tax liabilities.........	9,288	7,592
Net deferred tax liabilities.......	$8,388	$6,851

Significant components of the provision for income taxes attributable to continuing operations are as follow:

	Year ended December 31,		
(Dollars in thousands)	1998	1997	1996
Current:			
Federal.............	$3,196	$2,313	$1,911
State...............	804	50	50
Total Current.....	4,000	2,363	1,961
Deferred:			
Federal.............	1,214	1,630	1,288
State...............	323	141	52
Total Deferred....	1,537	1,771	1,340
	$5,537	$4,134	$3,301

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is:

	1998	1997	1996
Tax at U.S. statutory rates....	35.0%	35.0%	35.0%

State income taxes, net of federal tax benefit..........	3.4	3.4	3.4
Other - net....................	0.1	0.1	0.1
	38.5%	38.5%	38.5%

9. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	1998	1997	1996
Numerator:			
Net income...........	$8,755,000	$6,383,000	$5,273,000
Denominator:			
Denominator for basic earnings per share weighted-average share	6,273,638	5,572,465	5,441,636
Effect of dilutive securities:			
Employee stock options.............	330,729	336,967	240,516
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions.......	6,604,367	5,909,432	5,682,152
Basic earnings per share..	$1.40	$1.15	$ .97
Diluted earnings per share..	$1.33	$1.08	$ .93

10. Stockholders' Equity and Stock Option Plans

Stockholders' Equity

The Company declared a 5% stock dividend in 1996. Accordingly, weighted average share and per share amounts have been restated for that period.

Stock Option Plans

The Company has reserved 1,422,319 shares of common stock for issuance to officers, directors and employees on exercise of options granted under a stock option plan established in 1990. Options were granted at prices equal to or in excess of the fair market value of the stock on the date of the grant. There were 634,015, 573,346 and 615,000 shares exercisable at December 31, 1998, 1997 and 1996, respectively.

Information with respect to options granted under this plan is as follows:

	Number of Shares	Exercise Price Per Share
Outstanding at December 31, 1995	715,672	
Granted...........	204,311	$11.55 - $14.05
Canceled or exercised..........	(13,175)	$1.15 - $11.55
Outstanding at December 31, 1996	906,808	
Granted...........	46,250	$14.38 - $21.00
Canceled or exercised..........	(209,950)	$4.61 - $13.33
Outstanding at December 31, 1997	743,108	
Granted...........	159,952	$12.69 - $23.25
Canceled or exercised..........	(68,074)	$4.75 - $21.00
Outstanding at December 31, 1998	834,986	

In 1995, the Company established the Stock Option Plan for Non-Employee Directors. Options were granted at prices equal to or in excess of the fair market value of the stock on the date of the grant. There were 12,864, 11,025 and 7,352 options that were exercisable at December 31, 1998, 1997 and 1996, respectively.

Information with respect to options granted under this plan is as follows:

	Number of Shares	Exercise Price Per Share
Outstanding at December 31, 1995	22,052	$12.02
Granted..........	--	--
Canceled or exercised..	--	--
Outstanding at December 31, 1996	22,052	
Granted..........	--	--
Canceled or exercised..	(3,675)	$12.02
Outstanding at December 31, 1997	18,377	
Granted.......	6,000	$22.00
Canceled or exercised..	(5,513)	$12.02
Outstanding at December 31, 1998	18,864	

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation," which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: risk-free interest rates of 4.67%, 5.78% and 6.23%; a dividend yield of .35%, .32% and .35%, volatility factors of the expected market price of the Company's common stock of .26, .23 and .24; and a weighted-average expected life of the option of 7.5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information that follows is presented in thousands, except per share data.

	Year ended December 31, 1998	1997	1996
Pro forma net income before extraordinary item..	$8,495	$6,280	$4,983
Extraordinary item	(77)	(220)	--
Pro forma net income.....	$8,418	$6,060	$4,983
Pro forma basic earnings per share:			
Income before extraordinary item ...	$ 1.35	$1.13	$ .92
Extraordinary item.....	(.01)	(.04)	--
Net income.....	$ 1.34	1.09	.92
Pro forma diluted earnings per share:			
Income before extraordinary item	$ 1.29	$1.06	$ .88
Extraordinary item.......	(.01)	(.04)	--
Net income.....	$ 1.28	1.02	$ .88

11.Sale of Loans

The Company has sold $492,960,000 and $348,198,000 of loans at face value through December 31, 1998 and 1997, respectively. The principal amount remaining on the loans sold was $238,132,000 and $179,790,000 at December 31, 1998 and 1997, respectively. The Company guarantees, through replacement or repayment, loans in default up to a specific 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 exposure to loss on loans sold in the event of nonperformance by the consumer, the dealer/developer on its guarantee, and the determination that the collateral is of no value was $12,750,000, $9,238,000, and $8,780,000 at December 31, 1998, 1997 and 1996, respectively. Such amounts have not been discounted. The Company repurchased $491,000, $740,000 and $991,000 of loans under the recourse provisions of loan sales in 1998, 1997, and 1996, respectively. 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 document.

The Company's Serviced Portfolio is geographically diversified with collateral and consumers located in 46 and 50 states, respectively. At

December 31, 1998, 14.7%, 10.3% and 10.2% of the portfolio by collateral location was located in Texas, Florida and California, respectively, and 16.1% and 14.4% of the portfolio by borrower location were located in Florida and Texas, respectively. No other state accounted for more than 7.7% of the total.

The Company has a revolving line of credit and sale facility as part of an asset backed commercial paper facility with a multi-seller commercial paper issuer ("Conduit A"). In June 1998, the Company amended the facility to increase the facility to $150,000,000, subject to certain terms and conditions. The facility expires in June 2001.

In connection with the facility, the Company formed a wholly owned subsidiary, Litchfield Mortgage Securities Corporation 1994, to purchase loans from the Company. In October 1998, Litchfield Mortgage Securities Corporation 1994 was merged with and into Litchfield Mortgage Securities Company 1994, LLC ("LMSC"). LMSC either pledges the loans on a revolving line of credit with Conduit A or sells the loans to Conduit
A. Conduit A issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LMSC. Conduit A is not affiliated with the Company or its affiliates. As of December 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was $137,532,000. There were no outstanding borrowings under the line of credit at December 31, 1998. Outstanding borrowings under the line of credit at December 31, 1997 were $169,000. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

In March 1997, the Company closed an additional revolving line of credit and sale facility of $25,000,000 with another multi-seller of commercial paper conduit ("Conduit B"). The 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 facility at any time cannot exceed $25,000,000.

In connection with the facility, the Company formed a wholly owned subsidiary, Litchfield Capital Corporation 1996, to purchase loans from the Company. In October 1998, Litchfield Capital Corporation 1996, was merged with and into Litchfield Capital Company 1996, LLC ("LCC"). LCC either pledges the loans on a revolving line of credit with Conduit B or sells the loans to Conduit B. Conduit B issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LCC. Conduit B is not affiliated with the Company or its affiliates. As of December 31, 1998, the outstanding aggregate balance of the sold loans under the facility was $10,632,000. There were no outstanding borrowings under the line of credit as of December 31, 1998 and 1997. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

12. Quarterly Results of Operations (Unaudited)

(In thousands, except share and per share) share data)

	First	Second	Third	Fourth	Total
1996					
Total revenues................	$4,650	$6,101	$6,977	$5,968	$23,696
Total expenses................	3,355	3,560	3,808	4,399	15,122
Net Income.................... .	798	1,564	1,946	965	5,273
Earnings per common share:					
Basic........................	.15	.29	.36	.18	.97
Diluted......................	.14	.27	.34	.17	.93
Weighted average number of shares:					
Basic........................	5,436,149	5,442,768	5,443,319	5,444,399	5,441,636
Diluted......................	5,629,983	5,708,164	5,697,100	5,706,061	5,682,152
1997					
Total revenues..................	$6,407	$7,691	$8,263	$7,330	$29,691
Total expenses..................	4,545	4,634	4,749	5,026	18,954
Income before extraordinary item	1,145	1,880	2,161	1,417	6,603
Extraordinary item.............	--	--	--	(220)	(220)
Net Income......................	1,145	1,880	2,161	1,197	6,383
Earnings per common share:					
Basic income before extraordinary item...........	.21	.34	.38	.25	1.19
Diluted income before extraordinary item.............	.20	.32	.36	.24	1.12
Extraordinary item............	--	--	--	(.04)	(.04)
Basic net income..............	.21	.34	.38	.21	1.15
Diluted net income............	.20	.32	.36	.20	1.08
Weighted average number of shares:					
Basic.......................	5,446,679	5,560,167	5,629,644	5,652,424	5,572,465
Diluted....................	5,792,078	5,857,176	5,980,698	6,014,831	5,909,432
1998					
Total revenues..................	$7,953	$9,973	$10,465	$10,415	$38,806
Total expenses..................	5,433	6,218	5,966	6,820	24,437
Income before extraordinary item	1,550	2,309	2,767	2,206	8,832
Extraordinary item.............	--	--	(77)	--	(77)
Net Income......................	1,550	2,309	2,690	2,206	8,755

Earnings per common share:					
Basic income before extraordinary item	.27	.40	.40	.32	1.41
Diluted income before extraordinary item	.26	.38	.39	.31	1.34
Extraordinary item	--	--	(.01)	--	(.01)
Basic net income	.27	.40	.39	.32	1.40
Diluted net income	.26	.38	.38	.31	1.33
Weighted average number of shares:					
Basic	5,659,756	5,754,018	6,835,775	6,845,004	6,273,638
Diluted	6,020,158	6,117,832	7,158,882	7,120,202	6,604,367

A significant portion of the Company's revenues consists of gains on sales of loans. Thus, the timing of loan sales has a significant effect on the Company's results of operations.

Exhibit 13.1

REPORT OF MANAGEMENT

Exhibit 13.1

To the Stockholders and Noteholders of
LITCHFIELD FINANCIAL CORPORATION

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles. They include amounts based on informed judgment and estimates. The representations in the financial statements are the responsibility of management. Financial information elsewhere in the Annual Report is consistent with that in the financial statements.

To meet management's responsibility, the Company maintains a system of internal control designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes statements of policies and business practices, widely communicated to employees, which are designed to require them to maintain high ethical standards in their conduct of Company affairs. The internal controls are augmented by organizational arrangements that provide for appropriate delegation of authority and division of responsibility and by a program of internal audit with management follow-up.

The financial statements have been audited by Ernst & Young LLP. Their audit was conducted in accordance with generally accepted auditing standards and included a review of internal controls and selective tests of transactions.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets periodically with the independent auditors and management to review accounting, auditing, internal accounting controls and financial reporting matters. The independent auditors have free access to this committee without management present.

RONALD E. RABIDOU
Executive Vice President,
Chief Financial Officer and Treasurer

DAVID M. PASCALE
Chief Accounting Officer,
Vice President and Controller

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

LITCHFIELD FINANCIAL CORPORATION

We have audited the accompanying consolidated balance sheets of Litchfield Financial Corporation as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Litchfield Financial Corporation at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Boston, Massachusetts
January 30, 1999

Exhibit 13.1

Corporate Officers

Richard A. Stratton
Chief Executive Officer and President

Heather A. Sica
Executive Vice President

Ronald E. Rabidou
Executive Vice President,
Chief Financial Officer and Treasurer

Joseph S. Weingarten
Executive Vice President

Wayne M. Greenholtz
Senior Vice President

John J. Malloy
Senior Vice President,
General Counsel and Clerk

James H. Shippee
Senior Vice President

James A. Yearwood
Senior Vice President

David M. Pascale
Chief Accounting Officer,
Vice President and Controller

Counsel

Hutchins, Wheeler & Dittmar,
A Professional Corporation
Boston, MA

Transfer Agent

State Street Bank and Trust Company
c/o Boston EquiServe
Boston, MA

Independent Auditors

Ernst & Young LLP
Boston, MA

Board of Directors

John A. Costa
Managing Director of Planning and Business Development for Cardholder Management Services

Gerald Segel
Retired Chairman, Tucker, Anthony & R.L. Day, Inc.

Heather A. Sica
Executive Vice President

Richard A. Stratton
Chief Executive Officer and President

James Westra, Esq.
Stockholder of Hutchins, Wheeler & Dittmar, A Professional Corporation

Nasdaq Symbol

The common stock is traded under the symbol "LTCH".

Copies of the Company's Form 10-K Report, filed with the Securities and Exchange Commission, may be obtained from the office of the Treasurer, Litchfield Financial Corporation, 430 Main Street, Williamstown, MA 01267.

As of January 31, 1999, there were 1,084 stockholders of record.

Corporate Headquarters

Litchfield Financial Corporation

430 Main Street
Williamstown, MA 01267

Tel: (413) 458-1000
Fax: (413) 458-1020
E-mail:lfc@ltchfld.com

Western Regional Office

Litchfield Financial Corporation

13701 West Jewell Avenue

Suite 200
Lakewood, CO 80228

Tel: (303) 985-1030
Fax: (303) 985-5375

Exhibit 21.1

LITCHFIELD FINANCIAL CORPORATION
List of Subsidiaries

Name and Doing Business As Incorporation D/B/A
Litchfield Mortgage Securities Company, LLC Delaware None Litchfield Mortgage Securities Corporation 1992-2 Massachusetts None Litchfield Mortgage Securities Company 1994, LLC

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Delaware                                 None
Stamford Asset Recovery Corporation      Delaware
None
Stamford Business Credit Corporation     Delaware
None
Litchfield Timeshare Securities Corporation 1995
Delaware                                 None
LTSC Real Estate Asset Corporation       Delaware
None
Litchfield Capital Company 1996, LLC     Delaware
None
Green Mountain Funding Corporation       Delaware
None
Litchfield Hypothecation Corporation     Delaware
None
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Litchfield Hypothecation Corporation 1997-B Delaware None Litchfield Hypothecation Corporation 1998-A Delaware None Litchfield Hypothecation Corporation 1998-B

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Delaware                                 None
Priority Investment Trust                Delaware
None
First Choice Funding, Inc.               Delaware
None
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Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Litchfield Financial Corporation of our report dated January 30, 1999, included in the 1998 Annual Report to Stockholders of Litchfield Financial Corporation.

We also consent to the incorporation by reference in Registration Statements (Forms S-8 Nos. 333-11529 and 333-11531) filed with the Securities and Exchange Commission pertaining to various Litchfield Financial Stock Option Plans of our report dated January 30, 1999 with respect to the consolidated financial statements of Litchfield Financial Corporation incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

Boston, Massachusetts
March 29, 1999

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	DEC 31 1998
CASH	38,435
SECURITIES	28,883
RECEIVABLES	211,042
ALLOWANCES	6,707
INVENTORY	0
CURRENT ASSETS	0
PP&E	0
DEPRECIATION	0
TOTAL ASSETS	293,882
CURRENT LIABILITIES	0
BONDS	134,588
COMMON	69
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	82,025
TOTAL LIABILITY AND EQUITY	293,882
SALES	0
TOTAL REVENUES	38,806
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	0
LOSS PROVISION	1,532
INTEREST EXPENSE	14,265
INCOME PRETAX	14,369
INCOME TAX	5,537
INCOME CONTINUING	8,832
DISCONTINUED	0
EXTRAORDINARY	(77)
CHANGES	0
NET INCOME	8,755
EPS PRIMARY	1.40
EPS DILUTED	1.33

End of Filing