Holly Mortgage Trust

2006 Annual Report

TO OUR SHAREHOLDERS:

The financial statements of Holly Mortgage Trust (Holly) for the year ending December 31, 2006 that appear at the end of this report were audited by Melton & Melton, L.L.P. Total revenues in 2006 were $279,823, a 10 percent decline from the prior year. Net income per share in 2006 was $0.13, one cent per share lower than 2005.

An important part of revenues for both 2006 and 2005 is the recovery of amounts previously written off related to Holly's investments in the Wilco Building in Midland, Texas. In 1999, Holly purchased all of the stock of A.R. Goldrick Company, Inc. (Goldrick), the general partner of Wilco Building Partners, Ltd. (Wilco), the owner of a twenty-two story office building in Midland, Texas. During the years 2003 through 2005, all amounts invested in Goldrick were deemed to be impaired and were written off Holly's books. During 2004, Goldrick sold a major portion of its partnership interest in Wilco for $100,000 plus a $500,000 installment note maturing over the next five years. Collections on this installment note have resulted in income from a recovery of the earlier impairment losses.

At the end of 2006, Holly received payment for the remaining principal and interest on its investment in a residential development in Franklin and Marion Counties, Tennessee. Holly is still entitled to receive a portion of the proceeds from sales of the remaining property totaling approximately 720 acres.

LOANS

The following tabulation summarizes all of the mortgage loans outstanding at December 31, 2006, either wholly or partially funded by Holly.

Original Principal Amount	Maturity	Interest Provision	Property Securing Loan
$ 500,000	2007	12%	Residential development in El Paso, TX
$ 325,000	2007	13%	Shopping center in Houston, TX
$ 1,700,000	2009	3.5% plus 37.5% of remaining proceeds	Residential Development in Franklin & Marion Counties, Tennessee
$ 137,000	2009	12%	Office building in Midland, TX
$ 94,000	2010	10%	Real estate in El Paso, TX
$ 216,000	2010	11%	Apartment complex in Pasadena, CA

Holly maintains a website www.hollymortgage.com that contains additional information about the Trust. Annual reports are posted on the website along with notices of dividend declarations.

Robert W. Scharar
President

Robert A. Burns
Vice President & Treasurer

June 30, 2007

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS

December 31, 2006 and 2005

HOLLY MORTGAGE TRUST

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MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 28, 2007

To the Board of Trustees of
Holly Mortgage Trust

We have audited the balance sheet of Holly Mortgage Trust (the "Trust") as of December 31, 2006, and the related statements of operations, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Holly Mortgage Trust as of December 31, 2005 were audited by other auditors whose opinion, dated October 12, 2006, on those statements was qualified because of the departure from accounting principles generally accepted in the United States of America described in the third paragraph.

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

As more fully discussed in Note 9 to the financial statements, The Trust reports its investment in A. R. Goldrick Company, Inc. ("Goldrick"), its wholly owned subsidiary, under the cost method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that this investment be accounted for as a consolidated subsidiary. The effects of this departure from accounting principles generally accepted in the United States of America cannot be reasonably estimated.

In our opinion, except for the effects on the 2006 financial statements of the matter discussed in the preceding paragraph, the 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Holly Mortgage Trust as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Melton & Melton, L.L.P.

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HOLLY MORTGAGE TRUST
BALANCE SHEET
December 31, 2006 and 2005

	2006	2005
ASSETS		
Mortgage Notes Receivable:		
Mortgage notes receivable	$ 1,355,717	$ 1,107,880
Mortgage participations	(457,435)	(153,965)
Loan discounts	(11,816)	(24,033)
Allowance for losses	(189,675)	(189,675)
	696,791	740,207
Cash and cash equivalents	58,539	218,397
Restricted certificate of deposit	403,264	398,612
Accrued interest receivable, net of allowance of $627,612 and $568,433 at December 31, 2006 and 2005, respectively	11,963	9,830
Advances to affiliate	137,000	40,000
Investment in affiliate	402,677	53,478
Prepaid expenses	7,922	
	$ 1,718,156	**$ 1,460,524**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accrued expenses	$ 63,154	$ 20,205
Participation in excess of mortgage notes receivable	405,499	263,163
Notes payable	27,267	52,267
Preferential 9% cumulative mandatorily redeemable shares of beneficial interest	950,000	950,000
Total liabilities	1,445,920	1,285,635
Shareholders' Equity:		
Shares of beneficial interest, no par value, unlimited shares authorized, 1,404,232 shares issued and outstanding at December 31, 2006 and 2005	1,336,119	1,336,119
Accumulated deficit	(1,063,883)	(1,161,230)
	272,236	174,889
	$ 1,718,156	**$ 1,460,524**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF OPERATIONS
December 31, 2006 and 2005

	2006	**2005**
Revenue:		
Interest income	$ 93,062	$121,359
Other income	186,761	190,609
	279,823	311,968
Costs and Expenses:		
General and administrative	94,807	108,356
Interest expense	2,169	7,876
	96,976	116,232
Net income	**$182,847**	**$195,736**
Net income per share, basic and diluted	**$ 0.13**	**$ 0.14**
Weighted average shares outstanding	**1,404,232**	**1,404,232**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2006 and 2005

	Shares of Beneficial Interest		Accumulated	Shareholders'
	Number	Amount	Deficit	Equity
Balance, January 1, 2005	1,404,232	$1,336,119	$(1,288,155)	$ 47,964
Dividends paid	-	-	(68,811)	(68,811)
Net income	-	-	195,736	195,736
Balance, December 31, 2005	1,404,232	1,336,119	(1,161,230)	174,889
Dividends paid	-	-	(85,500)	(85,500)
Net income	-	-	182,847	182,847
Balance, December 31, 2006	**1,404,232**	**$1,336,119**	**$(1,063,883)**	**$272,236**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Net income	$ 182,847	$ 195,736
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of loan discounts	(12,217)	(12,217)
Income from equity method investments	-	(1,271)
Forgiveness of accounts payable to subsidiary	-	(184,000)
Accrued investment income	(149,199)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(2,133)	6,012
Other receivables	-	2,900
Prepaid expenses	(7,922)	-
Accounts payable and accrued expenses	29,343	(103,412)
Net cash provided by (used in) operating activities	40,719	(96,252)
Cash Flows from Investing Activities:		
Mortgage note originated	(525,000)	(561,000)
Mortgage note participations sold	350,000	883,900
Principal collected on mortgage notes receivable, net of participation	372,969	(119,273)
Advance to affiliate	(97,000)	(40,000)
Investment in affiliate	(200,000)	-
Purchase of certificate of deposit	(4,652)	(398,612)
Distributions from equity method investments	-	1,034
Net cash used in investing activities	(103,683)	(233,951)
Cash Flows from Financing Activities:		
Stock escrow advance	13,606	-
Payments on long-term debt - affiliate	-	(43,496)
Proceeds from note payable	36,000	167,812
Payments on note payable	(61,000)	(225,858)
Proceeds from issuance of preferred shares	-	135,000
Cash dividends paid	(85,500)	(68,811)
Net cash used in financing activities	(96,894)	(35,353)
Decrease in cash and cash equivalents	(159,858)	(365,556)
Cash and Cash Equivalents, beginning of year	218,397	583,953
Cash and Cash Equivalents, end of year	**$ 58,539**	**$ 218,397**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2006 and 2005

	2006	**2005**
Supplemental Information:		
Cash paid for interest	**$ 2,169**	**$ 12,255**
Non-Cash Investing and Financing Activites:		
Reduction of allowance for interest losses		**$ 350,573**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Holly Mortgage Trust (the "Trust") was organized as a Massachusetts business trust on January 2, 1998, with a termination date of January 2, 2013. The Trust is engaged primarily in the business of investing in second mortgages and equity participation mortgages. First Commonwealth Holdings Corporation ("FCHC"), whose principal shareholder is a trustee and shareholder of the Trust, is the Trust's compensated manager and advisor.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Mortgage Notes Receivable

Mortgage notes receivable are carried at unpaid principal balance since generally it is management's intention to hold mortgage notes to maturity. Commitment and origination fees collected from prospective borrowers are deferred and recognized as income using a method approximating the interest method over the life of those loans.

A loan is considered impaired when it is probable that the scheduled principal or interest will not be collected when due. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or collateral fair value, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment loss is recognized through a valuation allowance and a corresponding charge to income.

Allowance for Losses

The allowance for losses is based on management's estimate of the amount required to maintain an allowance adequate to reflect the risks inherent in the loan portfolio after giving consideration to existing economic conditions, loss experience in relation to outstanding loans, changes in the loan portfolio, borrowers' performance in reducing loan principal, adequacy of loan collateral, and other relevant factors.

Interest Income

Interest income on loans is accrued based upon the principal amount outstanding. If a loan is placed on nonaccrual status, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on such a loan is credited to principal if, in the opinion of management, collectibility of principal is doubtful; otherwise, the interest collected is recognized as revenue.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Trust's primary business activity is investing in loans collateralized by mortgages on real estate projects. These loans are principally collateralized by real estate in Florida and California.

The Trust maintains cash balances in a bank that at times, exceeds federal insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with this account.

Net Income Per Share

Net income per share is calculated by dividing net income by the weighted average number of shares of beneficial interest outstanding during the year. Earnings per share, both basic and diluted, are the same.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 1iabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the value of collateral and, therefore, the resulting allowance for losses. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

NOTE 2 - MORTGAGE NOTES RECEIVABLE AND COMMITMENTS

Notes receivable from funding mortgage loans are principally collateralized by second mortgage loans on commercial or residential property and are due at various dates, with the latest maturity due in October 2010. Notes receivable bear interest at rates generally ranging from 3.5% to 13%.

Commitments to lend additional funds at December 31, 2006 were approximately $1,774,000.

NOTE 3 - NOTES PAYABLE

Notes payable at December 31, 2006 and 2005 consist of the following:

	2006	2005
Unsecured note payable to an individual, bearing interest at 8%, principal and interest due monthly. Maturity in September 2007.	$27,267	$27,267
Unsecured note payable to an individual, bearing interest at 8%, principal and interest due monthly. Paid in full in 2006.	-	25,000
	$27,267	$52,267

NOTE 4 - FEDERAL INCOME TAXES

The Trust operates in such a manner to qualify as a "real estate investment trust" under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated there under. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust's otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2006 and 2005. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	2006	2005
Ordinary income	$0.06	$0.05

NOTE 5 - LETTER OF CREDIT

The Trust has a $392,100 letter of credit with a bank, which was cancelled on January 23, 2007. This letter of credit is secured by the restricted certificate of deposit.

NOTE 6 - SHAREHOLDERS' EQUITY

Except for the rights and preferences in payment of dividends and in liquidations, the Preferential Shares of Beneficial Interest ("Preferential Shares") have the same voting and other rights as the Shares of Beneficial Interest ("Common Shares"). The Preferential Shares are entitled to receive cumulative preferential dividends at the annual rate of nine cents ($0.09) per share before any dividends are paid on the Common Shares.

In the event of liquidation of the Trust, the assets available for distribution will be distributed first to the holders of the Preferential Shares up to one dollar ($1) per share plus any deferred dividends, then second to the holders of Common Shares up to one dollar ($1) per share and then equally on all of the shares of Preferential and Common Shares.

The Preferential Shares are subject to redemption at any time after January 1, 2009 upon not less than thirty days' prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar ($1) per share plus all unpaid dividends accrued to the redemption date. Any Preferential Shares outstanding on September 30, 2014 will be redeemed on that date.

During 2003, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 150 ("FAS 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement requires an issuer to classify a financial instrument issued in the form of shares that is mandatorily redeemable and embodies an unconditional obligation to redeem it by transferring its assets at a specified or determinable date or upon an event that is certain to occur as liabilities. The Trust has adopted these provisions in their financial statements and has included mandatorily redeemable preferred stock in liabilities on the accompanying balance sheet.

NOTE 7 - ADVISORY AGREEMENT AND RELATED PARTY TRANSACTIONS

The Trust is managed and advised by FCHC, whose principal shareholder is a trustee and shareholder of the Trust. An advisory fee is incurred based on approximately 1% of the book value of the assets of the Trust at the end of each fiscal year. The advisory fees for the years ended December 31, 2006 and 2005 were approximately $20,000 each year.

At December 31, 2004, the Trust had accounts payable to A. R. Goldrick of $184,000. During 2005, A. R. Goldrick forgave these payables.

At December 31, 2006 and 2005, the Trust had advanced $137,000 and $40,000, respectively, to Wilco Building Partners, Ltd. (See Note 9.)

During the year 2006, the Trust engaged in two mortgage participation payables with an affiliated business trust. At December 31, 2006, the Trust had one outstanding mortgage participation payable that totaled approximately $350,000 and is included in mortgage notes receivable, net on the balance sheet. The participation incurs interest at 11%, with a maturity date of September 30, 2007. Interest on such participations paid to the affiliates amounted to approximately $32,000 for the year ended December 31, 2006.

During the year 2005, the Trust engaged in six mortgage participation payables with various affiliated business trusts. At December 31, 2005, the Trust had one outstanding mortgage participation payable that totaled approximately $154,000 and is included in mortgage notes receivable, net on the balance sheet. The participations incur interest at rates ranging from 3.5% to 14% (excluding possible contingent interest rates up to 8.5%) and maturity dates ranging from August 2005 to August 2014. Interest on such participations paid to the affiliates amounted to approximately $86,000 for the year ended December 31, 2005.

NOTE 8 - MAJOR LOANS

At December 31, 2006, three mortgage notes receivable represented approximately 81% of total mortgage notes receivable. Interest related to these notes was approximately 76% of total interest income for the year ended December 31, 2006.

During the year ended December 31, 2005, the Trust derived approximately 73% of its interest income from four mortgage notes. These notes comprised approximately 62% of the mortgage notes receivable, net of participation at December 31, 2005.

NOTE 9 - INVESTMENT IN SUBSIDIARY

The Trust owns 100% of the common stock of A. R. Goldrick Company, Inc. (a C Corporation) (A. R. Goldrick). A. R. Goldrick is the general partner of Wilco Building Partners, Ltd., a limited partnership which owns and operates an office building in Midland, Texas. The financial statements of A. R. Goldrick have not been consolidated with those of the Trust. The investment in A. R. Goldrick was deemed by the Trust's management to be impaired and the investment's carrying value was $0 at December 31, 2005. In 2006, the Trust recognized approximately $149,000 in income from A. R. Goldrick which is included in other income. In addition, the Trust made a capital contribution in 2006 of $200,000 to A. R. Goldrick. The investment at December 31, 2006 is secured by a $500,000 note receivable.

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TRUSTEES

George Beatty, Jr.
President, George Beatty Associates

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Kenneth A. McGaw
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EXECUTIVE OFFICERS

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The Declaration of Trust establishing Holly Mortgage Trust provides the Trust property is liable for satisfaction of Trust obligation and that no trustee, shareholder or officer of the Trust shall have any personal liability for those obligations.