Holly Mortgage Trust

2010 Annual Report

TO OUR SHAREHOLDERS:

The financial statements of Holly Mortgage Trust ("Holly"), audited by Melton & Melton, L.L.P., for the years ended December 31, 2010 and December 31, 2009 are included at the end of this report. An impairment loss of $775,867 in 2010, discussed below, resulted in a net loss of $890,593, or $0.56 per share.

At the end of 2010 Holly's loan to Land Assemble, LLC, which represents approximately 46% of Holly's total assets, continued in default. The loan is secured by a single parcel located within the Heights of Tampa development ("HOT"), an assemblage of approximately 50 acres along the Hillsborough River near downtown Tampa, FL. Last year the bank holding a first mortgage on another part of the HOT began foreclosure proceedings. Efforts by the owners of HOT to restructure that debt were unsuccessful and title to that part of HOT was acquired in January 2011 by the purchaser of the bank's note. The foreclosure has had a negative impact on the HOT project and the impairment loss is recognition of the diminished value of Holly's collateral. If Holly eventually recovers an amount on its loan exceeding its reduced carrying value, and there can be no assurance this will occur, the gain would be income.

LOANS

The following tabulation summarizes all of Holly's loans outstanding at December 31, 2010.

Principal Amount Outstanding	Maturity	Interest Provision	Property Securing Loan
$32,000	Demand	8%	Office Park in Fishhawk, FL
$95,000	2011	9%	Unsecured
$147,623	2011	12%	Real Estate in El Paso, TX
$58,280	2011	6%	Unsecured
$920,000	2011	12%	Real Estate in Tampa, FL
$252,789	2012	10%	Office Building in Midland, TX

The $920,000 loan in the proceeding chart is one on which the impairment loss was taken.

INVESTMENTS IN MULTI-FAMILY RESIDENCES

Holly's business plan is to shift its investments to multi-family residential properties. Its goal is to expand its role in the multi-family residential market to include development of new units and in that way improve results of operations. The following tabulation summarizes Holly's investments in multi-family residences at December 31, 2010.

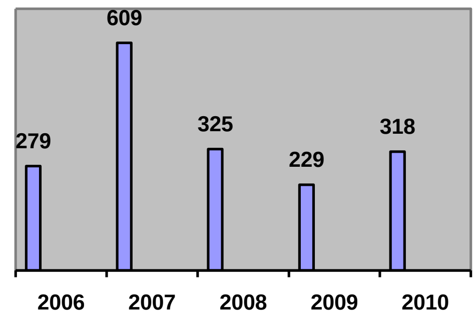
Property	Ownership Interest	Percentage Occupancy at 12/31/10
North Hills Village, a complex of 152 garden style flats in El Paso, TX	21.2%	100%
NPI - Columbus Court, a subsidized 160 apartment complex in Tampa, FL and four adjacent riverfront lots two of which have houses that are rented	5%	98%

North Hills Village, El Paso, TX

NPI-Columbus Court, LLC (Apartments – Tampa, Florida)

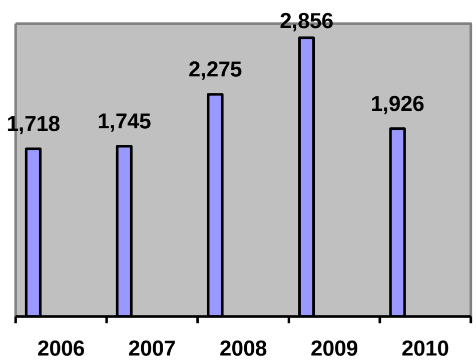
The charts below show various financial figures for Holly for the last five years.

Revenues (000's)



The spike in 2007 revenues reflects the proceeds from the sale of Holly's interest in a land development. The reduced revenues in 2009 relate to an interest rate reduction on a large loan.

Total Assets (000's)



The impairment loss resulted in the reduced total assets in 2010.

WEBSITE

Holly's website www.hollymortgage.com contains additional information about the trust. Earlier annual reports are posted on the website

Robert W. Scharar
President

Robert A. Burns
Vice President & Treasurer

April 29, 2011

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS

FOR THE

YEARS ENDED DECEMBER 31, 2010 AND 2009

AND REPORT OF

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

HOLLY MORTGAGE TRUST

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

April 29, 2011

To the Board of Trust Managers of
Holly Mortgage Trust

We have audited the accompanying balance sheet of Holly Mortgage Trust (the "Trust") as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As more fully discussed in Note 8 to the financial statements, the Trust reports its investment in A. R. Goldrick Company, Inc., 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 financial statements of the matter discussed in the preceding paragraph, the 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Melton & Melton, L.L.P.

6002 Rogerdale, Ste. 200 Houston, Texas 77072 Tel 281-759-1120 Fax 281-759-5500

HOLLY MORTGAGE TRUST
BALANCE SHEET
December 31, 2010 and 2009

	2010	2009
ASSETS		
Mortgage Notes Receivable:		
Mortgage notes receivable	$ 4,237,903	$ 4,543,843
Mortgage participations	(3,080,000)	(3,080,000)
Allowance for losses	(558,409)	-
	599,494	1,463,843
Cash and cash equivalents	114,408	49,412
Accrued interest receivable, net of participated interest payable of $562,542 and $562,542 and allowances of $848,266 and and $786,683 at December 31, 2010 and 2009, respectively	19,077	235,869
Note receivable	95,000	-
Advances to affiliate	252,789	216,789
Investments	895,152	878,934
Prepaid expenses and other	1,000	11,380
	$ 1,976,920	**$ 2,856,227**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 26,456	$ 15,170
Notes payable	150,000	150,000
Preferential cumulative mandatorily redeemable shares of beneficial interest	1,725,000	1,725,000
	1,901,456	1,890,170
Shareholders' Equity:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,604,232 shares issued and outstanding at December 31, 2010 and 2009	1,536,119	1,536,119
Accumulated deficit	(1,460,655)	(570,062)
	75,464	966,057
	$ 1,976,920	**$ 2,856,227**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Interest income	$ 60,716	$ 226,847
Other income	124,000	52,417
	184,716	279,264
Costs and Expenses:		
General and administrative	137,392	139,891
Impairment loss on notes receivable and accrued interest	775,867	-
Interest expense	162,050	151,338
	1,075,309	291,229
Net loss	**$ (890,593)**	**$ (11,965)**
Weighted average shares outstanding	**1,604,232**	**1,432,565**
Net loss per share, basic and diluted	**$ (0.56)**	**$ (0.01)**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2010 and 2009

	Shares of Beneficial Interest		Accumulated	Shareholders'
	Number	Amount	Deficit	Equity
Balance, December 31, 2008	1,404,232	$ 1,336,119	$ (558,097)	$ 778,022
Sale of shares of beneficial interest	200,000	200,000		200,000
Net loss			(11,965)	(11,965)
Balance, December 31, 2009	1,604,232	1,536,119	(570,062)	966,057
Net loss			(890,593)	(890,593)
Balance, December 31, 2010	**1,604,232**	**$ 1,536,119**	**$ (1,460,655)**	**$ 75,464**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Net loss	$ (890,593)	$ (11,965)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt recovery	-	(62,000)
Impairment loss on notes receivable and accrued interest	775,867	-
Changes in operating assets and liabilities:		
Accrued interest receivable, net	(666)	31,729
Prepaid expenses and other	10,380	(11,380)
Accounts payable and accrued expenses	11,286	(10,538)
Total adjustments	796,867	(52,189)
Net cash used in operating activities	(93,726)	(64,154)
Cash Flows from Investing Activities:		
Mortgage notes originated	-	(549,000)
Note receivable	(95,000)	-
Principal collected (disbursed) on mortgage notes receivable, net of participation	305,940	514,744
Collection on (advance to) affiliate, net	(36,000)	55,207
Purchase of equity investments	(21,175)	(579,244)
Return of investment in affiliate	4,957	29,700
Net cash provided by (used in) investing activities	158,722	(528,593)
Cash Flows from Financing Activities:		
Issuance of preferential shares	-	460,000
Purchase of preferential shares	-	(145,000)
Issuance of beneficial shares	-	200,000
Payments on notes payable	-	(12,209)
Net cash provided by financing activities	-	502,791
Net increase (decrease) in cash and and cash equivalents	64,996	(89,956)
Cash and Cash Equivalents, beginning of year	49,412	139,368
Cash and Cash Equivalents, end of year	**$ 114,408**	**$ 49,412**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2010 and 2009

	2010	2009
Supplemental Information:		
Cash paid for interest	$ 162,050	$ 151,338
Non-Cash Investing and Financing Activities:		
Mortgage note received as payment for accrued interest		$ 22,295
Mortgage note and interest received as a return of capital on an investment		$ 83,683
Investment acquired through the assumption of debt		$ 100,000

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Holly Mortgage Trust (the "Trust") is organized as a Texas real estate investment trust. The Trust has a termination date of December 31, 2030. The Trust is engaged primarily in the business of investing in second mortgages, equity participation mortgages, and multi-family residential properties. First Commonwealth Holdings Corporation ("FCHC"), whose principal shareholder is a trust manager and shareholder of the Trust, is the Trust's compensated manager.

Cash and Cash Equivalents

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

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

Mortgage Notes Receivable

Mortgage notes receivable are carried at unpaid principal balances because 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.

During 2010, management determined that the collectibility of certain mortgage notes receivable and corresponding accrued interest receivable was impaired and collection was not certain. As a result, the valuation allowance was increased by $558,409 for the mortgage notes receivable during 2010. Accrued interest, net of participation interest payable, on these mortgage notes of $217,458 was written off in 2010. No interest was recognized on these mortgage notes receivable or participations in 2010. The mortgage notes receivable of $4,000,000, net of mortgage participations of $3,080,000, are currently on nonaccrual status. Management believes the remaining value of the impaired mortgage notes receivable, net of participations payable, represents the fair value of the mortgage notes receivable collateral at December 31, 2010.

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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net Loss per Share

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

Concentrations of Credit Risk

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

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 period. 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 December 2012. Notes receivable bear interest at rates generally ranging from 6% to 12%.

There were no commitments to lend additional funds at December 31, 2010.

NOTE 3 - NOTES PAYABLE

Notes payable at December 31, 2010 and 2009 consist of the following:

	2010	2009
Unsecured note payable to an individual, bearing interest at 8%, interest due monthly; due on demand, or January 2012	$ 50,000	$ 50,000
Unsecured note payable to an individual, bearing interest at 12%, interest due monthly, due January 2011	100,000	100,000
	$150,000	$150,000

Maturities requirements on long-term debt are as follows:

For the Year Ending December 31:	
2011	$150,000
	$150,000

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 thereunder. 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, 2010 and 2009. Management believes that all other requirements of a qualified real estate investment trust have been met. For tax purposes, interest on the mandatorily redeemable shares of beneficial interest is treated as dividends.

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

	2010	2009
Ordinary income	33%	61%
Return of capital	67	39
	100%	100%

NOTE 4 - FEDERAL INCOME TAXES (CONTINUED)

As of December 31, 2010, the Trust had federal net operating loss carryforwards of $829,900 that can be deducted against future taxable income. These carryforward amounts expire as follows:

For the Year Ending December 31:	
2023	$495,203
2025	209,158
2027	3
2028	32,725
2029	92,811
	$829,900

The Trust does not expect to pay federal income taxes, thus the tax effect of the net operating loss carryforwards has been adjusted to zero by a valuation allowance of $282,166.

The amount of income taxes the Trust pays is subject to audits by federal and state tax authorities. The Trust's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time, pursuant to the FASB Accounting Standards Codification (ASC) 740, *Income Taxes*. ASC 740 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Trust records a liability for the difference, if any, between the benefit recognized and measured pursuant to ASC 740 and the tax position taken or expected to be taken on the tax return. To the extent that the Trust's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

The Trust reports tax-related interest and penalties in income tax expense.

At December 31, 2010 and 2009, the Trust had no material uncertain tax positions. There were no accruals for tax-related interest and penalties at December 31, 2010 and 2009. The Trust did not have any tax-related interest and penalties for the years ended December 31, 2010 and 2009. The tax years 2007 through 2009 remain open and subject to examination by federal and various state tax jurisdictions.

NOTE 5 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST

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 issued in 2004 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. The Preferential Shares issued in 2009 and 2008 are entitled to receive cumulative preferential dividends at the annual rate of eight cents ($0.08) per share before any dividends are paid on the Common Shares.

NOTE 5 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST (CONTINUED)

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 issued in 2004 (805,000 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 issued in 2004 that are outstanding on September 30, 2014 will be redeemed on that date.

The Preferential Shares issued in 2009 and 2008 (920,000 shares combined for the two years) are subject to redemption at any time after January 1, 2012 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 issued in 2009 and 2008 that are outstanding on September 30, 2019 will be redeemed on that date.

During 2003, the FASB issued ASC 480, *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 its financial statements and has included mandatorily redeemable preferred shares in liabilities in the accompanying balance sheet and dividends on the mandatorily redeemable preferred shares as interest expense in the accompanying statement of operations.

NOTE 6 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

Management fees paid to FCHC were approximately $44,000 and $60,000 for the years ended December 31, 2010 and 2009, respectively. The management fee is based on the greater of $50,000 or 1.4% of the book value of the assets of the Trust at the end of each prior fiscal year less accounting and certain board member fees.

At December 31, 2010 and 2009, the Trust had advanced $252,789 and $216,789, respectively, to Wilco Building Partners, Ltd. (See Note 8.)

At December 31, 2009, the Trust also had a mortgage note receivable due from Wilco Building Partners, Ltd. of $105,980, which is included in mortgage notes receivable in the balance sheet. The mortgage note receivable was collected in 2010. Interest income on the mortgage note was approximately $2,000 for 2010 and 2009.

At December 31, 2010 and 2009, the Trust had a mortgage note receivable due from Global REIT, L.P. (see Note 8) of $58,280 and $100,000, respectively, which is included in mortgage notes receivable in the balance sheet. Interest income on the note amounted to approximately $4,500 and $6,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 6 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS (CONTINUED)

At December 31, 2009, the Trust had a mortgage note receivable due from NPI - Columbus Court, LLC (see Note 8) of $55,000, which is included in mortgage notes receivable in the balance sheet. The mortgage note receivable was collected in 2010. Interest income on the mortgage note was approximately $2,000 for 2010.

At December 31, 2010 and 2009, the Trust had one outstanding mortgage note receivable with an affiliated business trust for $920,000, net of $3,080,000 participations payable, and is included in mortgage notes receivable, net in the balance sheet. The note receivable incurs interest at 12% and is due on demand. As of January 1, 2010, the note is on nonaccrual status. Interest income on the mortgage note receivable amounted to approximately $133,500, net of $346,500 interest expense for the year ended December 31, 2009. At December 31, 2010 and 2009, accrued interest on the note amounted to $0 and $217,458, respectively, net of participated interest payable of $562,542 for each year.

In 2009, the Trust received $15,834 of interest income from First Commonwealth Mortgage Trust, a related trust, on a $362,000 promissory note that matured on December 31, 2009. The note was collected in December 2009.

At December 31, 2010, the Trust had a promissory note receivable from Ivy Realty Trust, a related trust, for $95,000. The promissory note matures in February 2011.

NOTE 7 - SIGNIFICANT MORTGAGE NOTES RECEIVABLE

At December 31, 2010, one mortgage note receivable represented approximately 94% of total mortgage notes receivable and related participations payable represented 100% of total participations payable. Interest on two other notes was approximately 80% of total interest income for the year ended December 31, 2010.

At December 31, 2009, one mortgage note receivable represented approximately 88% of total mortgage notes receivable and related participations payable represented 100% of total participations payable. Interest related to this note and one other note was approximately 75% of total interest income for the year ended December 31, 2009.

NOTE 8 - INVESTMENTS

Investments consist of the following at December 31, 2010 and 2009:

	2010	2009
A. R. Goldrick Company, Inc.	$ 24,842	$ 29,799
Global REIT, L.P.	74,438	53,478
DMJ Note Syndication 2004	116,413	116,413
NPI - Columbus Court, LLC	179,459	179,244
Northeast Equity Partners, LP	500,000	500,000
	$895,152	$878,934

NOTE 8 - INVESTMENTS (CONTINUED)

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 that 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 is accounted for using the cost method of accounting. In 2010 and 2009, the Trust received a return of capital of $4,957 and $29,700, respectively, from A. R. Goldrick. At December 31, 2010 and 2009, the cost of the investment was $24,842 and $29,799, respectively.

The Trust owns 70 (50 at December 31, 2009) partnership units of Global REIT, L.P. The Trust accounts for this investment using the cost method of accounting. At December 31, 2010 and 2009, the cost of this investment was $74,438 and $53,478 respectively.

The Trust owns a 15.63% partnership interest in DMJ Note Syndication 2004. The Trust accounts for this investment using the cost method of accounting. In 2009, the Trust received a return of capital of $83,683, composed of a note receivable and related interest receivable. At December 31, 2010 and 2009, the cost of the investment was $116,413.

In September 2009, the Trust purchased a 5% equity interest in NPI - Columbus Court, LLC for $79,244 cash and the assumption of a $100,000 note. The Trust accounts for this investment using the cost method of accounting. At December 31, 2010 and 2009, the cost of the investment was $179,459 and $179,244, respectively.

In November 2009, the Trust purchased a 21.28% partnership interest in Northeast Equity Partners, LP for $500,000. The Trust accounts for this investment using the cost method of accounting. The cost of the investment was $500,000 at December 31, 2010 and 2009.

Investments with an aggregate cost of $895,152 and $878,934 at December 31, 2010 and 2009, respectively, were not evaluated for impairment because (a) the Trust did not estimate the fair value of those investments in accordance with ASC 825, *Disclosure about Fair Value of Financial Instruments*, and (b) the Trust did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

NOTE 9 - FAIR VALUES

The Trust accounts for fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures.* ASC 820 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. A summary of the fair value hierarchy under ASC 820 is described below:

Various inputs are used in determining the value of the Trust’s financial instruments. These inputs are summarized in the three broad levels listed below:

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).

NOTE 9 - FAIR VALUES (CONTINUED)

Level 3 - Significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments).

Impaired Mortgage Notes Receivable, net of Participations Payable: The fair value of impaired mortgage notes receivable is based on the estimated fair value of the underlying collateral.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The inputs and methodology used for valuing securities are not an indication of the risk associated with investing in those securities. There have been no changes in the methodologies used at December 31, 2010 and 2009.

The following is a summary of the inputs used to value the Trust's financial instruments as of December 31, 2010:

Description	Level 1	Level 2	Level 3	Total
2010:				
Impaired mortgage notes receivable, net of participations payable - nonrecurring			$361,591	$361,591

NOTE 10 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through April 29, 2011, the date the financial statements were available to be issued.

TRUST MANAGERS

George Beatty, Jr.
President, George Beatty Associates

William C. Brooks
Financial Consultant

Josef C. Hermans
Hotel Consultant

Kenneth A. McGaw
President,
First Commonwealth Mortgage Trust

Robert W. Scharar
President,
Holly Mortgage Trust, First Commonwealth Holdings Corporation and FCA Corp

EXECUTIVE OFFICERS

Robert W. Scharar
President

Robert A. Burns
Vice President and Treasurer

William B. LeVay
Secretary

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