SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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AMRESCO INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 1998
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-8630

AMRESCO, INC.
(Exact name of registrant as specified in its charter)

Delaware	59-1781257
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

700 N. Pearl St. Ste 2400 LB 342 Dallas, Tx.	75201-7424
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (214) 953-7700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
8.75% Senior Notes due 1999	New York Stock Exchange
10% Senior subordinated Notes due 2003	New York Stock Exchange
10% Senior Subordinated Notes due 2004	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Shares of common stock, par value $0.05 per share

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. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation 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 [ ]

As of March 22, 1999, 48,069,335 shares of the registrant's common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock as of March 22, 1999, was approximately $398,500,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed for the Annual Meeting of Shareholders to be held on May 19, 1999, are incorporated by reference in Part III hereof.

PART I

Item 1. Business

General

AMRESCO, INC. (the "Company") is a diversified financial services company specializing in real estate lending, commercial finance and the acquisition, resolution and servicing of performing, underperforming and nonperforming commercial loans. The Company began operations in 1987 providing asset management and resolution services to governmental agencies, financial institutions and others relating to nonperforming and underperforming commercial and real estate loans. In early 1994, the Company made the decision to diversify its business

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lines and build "franchise" business units that could use the Company's core real estate management and lending expertise to pursue growth in markets that were being underserved by traditional lenders. Since that time, the Company has entered the commercial mortgage banking, commercial finance, residential mortgage lending and loan servicing businesses and oriented its asset management activities towards direct investments in asset portfolios and the special servicing of large portfolios of asset-backed securities.

Business Activities

The Company's primary businesses are organized along the following lines: asset management, commercial mortgage banking, home equity lending, commercial finance and residential mortgage banking. Financial information regarding the Company's operating segments is presented in Note 13 of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data." Additional financial information regarding the Company's operating segments is presented in "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations".

Asset Management Business

General. The Company manages and resolves portfolios of performing, underperforming and nonperforming loans ("asset portfolios") and provides special servicing for nonperforming or underperforming loans in commercial mortgage-backed bond trusts and similar securitized commercial asset-backed loan portfolios.

Asset Portfolio Management. The Company manages and resolves asset portfolios acquired at a discount to Face Value by the Company alone and by the Company with co-investors. The Company also manages and resolves asset portfolios owned by third parties.

Management of asset portfolios includes managing and resolving loans and providing routine accounting servicing functions. Asset portfolios generally include secured loans of varying qualities and collateral types. The majority of the loans in which the Company invests are in payment default at the time of acquisition. Asset portfolios purchased by the Company are comprised of secured loans and real estate loans, the resolution of which may be based either on cash flow of a business or on real estate and other collateral securing the loan. The Company does not invest in loans with known environmental liabilities, unless the environmental risks can be quantified and discounted appropriately.

The Company obtains information on available asset portfolios from many sources, including banks, insurance companies and other lenders. Repeat business and referrals from asset portfolio sellers with whom the Company previously has transacted business are an important and frequent source of business. The Company has developed relationships in which it is a preferred purchaser of asset portfolios from certain sellers. The Company believes that it receives many asset portfolio solicitations that result primarily from the Company's reputation as an active portfolio purchaser. Other important sources of business include referrals from co-investors who seek the Company's participation in asset portfolio purchases, contacts initiated by senior management, public advertising of asset portfolios for sale and the Company's nationwide presence.

The Company believes that opportunities for the acquisition, management and resolution of asset portfolios are becoming increasingly evident in certain international markets and that lenders in these markets are adopting many of the asset portfolio management and resolution outsourcing techniques currently utilized in the United States. Accordingly, the Company has opened offices in Toronto (August 1994), employing 13 persons, and London (October 1995), employing 11 persons, each at December 31, 1998, in order to take advantage of both investment and servicing opportunities in Canada, the United Kingdom and certain other Western European nations. During 1998, the Company began providing asset management services in Mexico and Asia employing 49 persons in Mexico and 3 persons in Asia. The Company believes that the international markets are less competitive and, as a result, provide more attractive investments and greater profit margins. The Company may open other offices and seek strategic alliances in other international markets. The Company had $102.8 million (Face Value) in Canadian asset portfolios, $441.5 million (Face Value) in United Kingdom asset portfolios and $241.8 million (Face Value) in Mexican asset portfolios under management as of December 31, 1998.

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The Company believes that it can gain market share in the asset portfolio acquisition, management and resolution business due to its experience in managing and resolving asset portfolios and its national reputation and strategic relationships with sellers and purchasers of asset portfolios, including financial institutions, large corporate buyers, investment banking firms and sophisticated private investors.

Asset Portfolio Investment. Prior to making an offer to purchase an asset portfolio, the Company conducts an extensive investigation and evaluation of the individual loans generally comprising 100% of the aggregate Face Value of all the loans therein, except in rare instances where an unusually large number of smaller assets are being purchased. This examination typically consists of analyzing the information made available by the seller (generally, the respective credit and collateral files for the loans), reviewing other relevant material that may be available (including tax and judgment records), and analyzing the underlying collateral (including conducting site inspections, obtaining value opinions from third parties and consulting with any of the Company's asset managers who have experience with the local market for such assets). The Company also reviews information on the local economy and real estate markets in the area in which the loan collateral is located. Because of its broad, nationwide experience in managing assets, the Company often is able to draw on its asset management experience in the specific market in which an asset is located. Unlike the original lender, the Company values loans based on the present value of estimated total cash flow from resolution, with the expectation that the loans will be resolved prior to scheduled maturity. Generally, the Company does not refinance or renew purchased loans or grant new credit.

Asset portfolio evaluations are conducted almost exclusively by the Company's employees who specialize in analysis of nonperforming and underperforming loans, often with further specialization based on geographic or collateral-specific factors. Most of these employees have previously served the Company (and some continue to serve) as asset managers with responsibility for resolving such loans. Their asset management experience aids these individuals, working together in teams, in making informed judgments about the status of each loan and the underlying collateral, the probable cash flows from the loan, the likely resolution of the loan and the time and expense required for resolution.

Loan resolutions are typically accomplished through (i) negotiating a discounted payoff with debtors, which may be accomplished through a refinancing by the obligor with a lender other than the Company, or (ii) foreclosure and sale of the collateral. The Company generally seeks consensual resolution of each loan, having found that a negotiated resolution usually maximizes the Company's or investor's rate of return. Historically, the Company has resolved the majority of the assets in an asset portfolio within 18 months of acquisition. The goal of the Company's loan resolution process is to maximize the cash recovery in a timely manner on each loan in an asset portfolio.

The Company's investment in asset portfolios is comprised of collateralized business loans and in real estate collateralized loans. At December 31, 1998, the Face Value of the Company's wholly-owned asset portfolios aggregated approximately $1,048.0 million, which was composed of approximately $685.9 million (65.4%) of collateralized business loans, approximately $141.2 million (13.5%) of asset-backed securities and approximately $220.9 million (21.1%) of real estate.

For the years ended December 31, 1998, 1997 and 1996, $112.7 million (21.4%), $103.6 million (24.8%), and $88.8 million (44.4%) respectively, of the Company's revenues were attributable to its asset management business. The following table reflects the ownership composition of the asset portfolios (based on their Face Value) under management by the Company as of December 31, 1998, 1997, 1996, 1995 and 1994. Certain reclassifications of prior period amounts have been made to conform to the current year presentation.
<TABLE>
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	1998		1997		1996		1995		1994	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
					(dollars in millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Wholly-owned by the Company	$1,048.0	33.6%	$593.4	30.7%	$ 572.2	20.7%	$ 354.3	9.6%	$ 140.4	4.6%

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Owned by the Company with co-investors	182.5	5.9	422.9	21.8	836.0	30.1	1,558.1	42.2	1,675.9	55.3
Owned by third parties:										
Securitized mortgage pools	574.0	18.4	459.2	23.7	618.0	22.3	738.3	20.0	315.0	10.4
Government and other owners	1,313.1	42.1	462.1	23.8	744.4	26.9	1,043.2	28.2	900.5	29.7
Total under management	$3,117.6	100.0%	$1,937.6	100.0%	$2,770.6	100.0%	$3,693.9	100.0%	$3,031.8	100.0%

The following table reflects the Company's investment in asset portfolios as of December 31, 1998, 1997, 1996, 1995 and 1994:

	1998	1997	1996	1995	1994
		(dollars in millions)			
Wholly-owned by the Company	$573.0	$494.9	$274.9	$172.6	$34.4
Owned by the Company with co-investors	17.1	22.8	27.7	34.3	33.7
Total	$590.1	$517.7	$302.6	$206.9	$68.1

</TABLE>

Special Servicing. As part of its third-party asset management and resolution business, the Company aggressively pursues contracts to serve as the designated special servicer for pools of securitized commercial mortgages. The competitive bidding process generally requires that the Company agree to purchase an interest (a "servicing strip") in the securitized portfolio in order to secure the servicing contract. After a loan within a securitized pool of performing loans becomes delinquent or nonperforming, the master servicer or primary servicer of the pool will contractually transfer responsibility for resolution of that loan to the pool's designated special servicer. Special servicers earn an annual fee (typically approximately 50 basis points of the Face Value of the delinquent or nonperforming loans subject to special servicing), plus a 50 to 200 basis points resolution fee based on the total cash flow from resolution of each such loan as it is received. As of December 31, 1998, the Company was the designated special servicer for securitized pools holding approximately $20.2 billion (Face Value) of loans, $574.0 million (Face Value) of which had been assigned to the Company for resolution in its capacity as special servicer.

Commercial Mortgage Banking Business

General. The Company performs a wide range of commercial mortgage banking services, including originating, underwriting, placing, selling and servicing commercial real estate loans through Holliday Fenoglio Fowler, AMRESCO Capital and AMRESCO Services.

Real Estate Capital Markets. The Company provides a wide range of real estate capital markets services to lenders on, and owners and developers of, commercial real estate properties. The typical consumers of commercial real estate mortgage banking services are both real estate developers and owners (as borrowers) and investor/lenders (as funding sources). Due to the specialized nature of commercial mortgage lending, borrowers rely on commercial mortgage bankers to find competitive lenders, and these lenders (particularly insurance companies and pension plans, which do not generally have origination staffs located in multiple branches) rely on commercial mortgage bankers to source potential borrowers. Lenders generally include banks, pension funds and insurance companies. In arranging loans, the Company works closely with both the borrower and potential lenders from the time a loan prospect is first contacted, through the application and proposal process and throughout the documentation of the loan to final funding.

Holliday Fenoglio Fowler was one of the largest commercial mortgage bankers in the United States in 1998 (based on origination volume) and primarily serves commercial real estate developers and owners by arranging commercial real estate loans and providing brokerage and other real estate capital markets services for commercial real estate transactions. Holliday Fenoglio Fowler arranged approximately $7.3 billion, $4.7 billion and $2.5 billion of commercial real estate loans during 1998, 1997 and 1996, respectively. Holliday Fenoglio Fowler principally targets developers and owners of commercial and multifamily real estate properties. Holliday Fenoglio Fowler serves prospective borrowers through its own commission-based mortgage bankers in 24 nationwide offices. The loans arranged by Holliday Fenoglio Fowler generally are funded by institutional lenders, primarily insurance companies, and by Conduit Purchasers. The Company estimates that Holliday Fenoglio Fowler has retained the servicing rights on approximately 19% of such loans over the last three years. The Company believes that Holliday Fenoglio Fowler's relationship and credibility with its institutional lender network provide the Company a competitive advantage in the commercial mortgage banking industry.

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The Company provided brokerage and other real estate capital markets services on commercial real estate sales and other real estate transactions, including joint ventures and participating mortgages of approximately $9.8 billion, $6.1 billion and $3.1 billion during 1998, 1997 and 1996, respectively. For the year ended December 31, 1998, 1997 and 1996, Holliday Fenoglio Fowler earned gross fees of $69.8 million, $44.0 million and $24.0 million, respectively, for brokerage services.

Holliday Fenoglio Fowler generally earns a fee of between 50 and 100 basis points of the loan amount for originated or underwritten loans, plus certain additional processing fees. From time to time, Holliday Fenoglio Fowler also originates nontraditional financing involving hybrid forms of debt, equity participation's and other creative financing structures. Fees for equity or joint venture structures are typically higher.

Holliday Fenoglio Fowler has established relationships with over 200 institutional lenders that include insurance companies, pension plans and Conduit Purchasers. In 1998, 1997 and 1996, Holliday Fenoglio Fowler placed 1,109, 709 and 410 loans with approximately 198, 128 and 107 different lenders, respectively. Forty-eight institutional lenders have retained Holliday Fenoglio Fowler as their exclusive or semi-exclusive loan originator in selected cities and regions.

Holliday Fenoglio Fowler has significantly expanded its East Coast business with the 1998 acquisitions of Fowler, Goedecke, Ellis & O'Connor Incorporated and PNS Realty Partners, L.P.

Commercial Real Estate Lending. AMRESCO Capital is a commercial real estate lender, which originates, underwrites and closes long term fixed rate commercial mortgages for sale to various investors. During 1998, 1997 and 1996, AMRESCO Capital closed approximately $2.4 billion, $1.7 billion and $0.6 billion, respectively, of commercial real estate mortgages. AMRESCO Capital serves its market directly through 13 offices located in 12 states as well as through a network of approximately 40 independent mortgage brokers located throughout the United States. These independent mortgage brokers serve AMRESCO Capital on a nonexclusive basis and receive fees and commissions based on transaction size, type and complexity. For years ended December 31, 1998 and 1997, approximately 45% and 39% of the loans, respectively, underwritten by AMRESCO Capital were originated by Holliday Fenoglio Fowler.

During the fourth quarter of 1998, AMRESCO Capital suffered significant losses related to its commercial mortgage conduit operation. As a result, AMRESCO Capital made the strategic decision to exit the commercial mortgage conduit business as a principal so as to avoid the significant capital markets risk associated with the accumulation and securitization of commercial mortgage loans. AMRESCO Capital's business is now focused on commercial mortgage lending through agency programs such as the Fannie Mae DUS program. In addition, as described below, AMRESCO Capital recently implemented conduit programs with major financial institutions that will provide fee income and a profit participation to AMRESCO Capital without the requirement to place significant capital at risk.

AMRESCO Capital is approved by Fannie Mae to participate in its DUS program. An approved DUS lender is delegated the authority to approve, commit and close loans for multifamily mortgages on a national basis with the assurance that Fannie Mae will purchase the loans with the lender retaining the servicing. In return for the delegated authority to make loans and the subsequent purchase of such loans by Fannie Mae, DUS lenders must maintain a minimum capital base, and retain a certain level of credit risk on the loans they make. The DUS lender takes first loss risk up to 5% of the loan amount, and above 5% of the loan amount Fannie Mae and the DUS lender share the loss, with the DUS lender's maximum loss capped at 20% of the loan amount. AMRESCO Capital, as a DUS lender, had experienced no losses on its portfolio of sold DUS loans as of December 31, 1998, but, had a reserve of $6.1 million as of December 31, 1998 included in other liabilities. AMRESCO Capital is one of only 28 currently approved DUS lenders. While all DUS lenders operate on a national basis, the Company believes that 10 such lenders (including AMRESCO Capital) account for the majority of DUS volume.

AMRESCO Capital is also a member of the Freddie Mac Program Plusr multifamily seller/servicer program. Through this program, the Company is authorized to originate multi-family mortgages for Freddie

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Mac in the states of Florida, New York, North Carolina, South Carolina and Pennsylvania. Freddie Mac recently has announced changes to its program that will have the effect of significantly expanding the number of areas in which the Company is authorized to originate mortgages.

The Company believes that AMRESCO Capital, as an authorized Fannie Mae DUS and Freddie Mac Program Plusr lender, has certain competitive advantages in the multifamily mortgage origination business. These advantages include the competitive pricing afforded by Fannie Mae's and Freddie Mac's positions as the largest purchasers of housing related mortgages in the nation and AMRESCO Capital's affiliation with Holliday Fenoglio Fowler, one of the largest mortgage banking company's in the nation. For these reasons, the Company expects Fannie Mae and Freddie Mac loan originations to become a larger portion of its commercial mortgage banking activities. Holliday Fenoglio Fowler has been and is expected to be a significant source of such loan originations.

During February 1999, AMRESCO Capital announced that formation of a strategic alliance with LaSalle National Bank in which commercial mortgage loans originated by AMRESCO Capital will be funded by LaSalle National Bank and securitized by LaSalle's affiliate, ABN AMRO Incorporated. Also in February 1999, AMRESCO Capital announced a strategic alliance with Morgan Stanley Dean Witter to originate fixed rate commercial mortgage loans to be purchased by Morgan Stanley Dean Witter and included in commercial mortgage-backed securities to be lead managed by Morgan Stanley Dean Witter. The arrangements with LaSalle National Bank and Morgan Stanley Dean Witter both provide for AMRESCO Capital to earn fees for its origination and related services and to participate in the profits associated with the subsequent securitization of the commercial mortgage loans. AMRESCO Capital does not assume any significant funding risk associated with these conduit programs.

Commercial Loan Servicing. AMRESCO Services is a servicer for securitized pools of commercial mortgages and whole loans. The average life of these securitized pools is expected to be approximately eight years. At December 31, 1998, 1997, 1996, 1995 and 1994, AMRESCO Services acted as servicer with respect to approximately $31.0 billion, $25.9 billion, $16.7 billion, $13.5 billion and $5.6 billion, of loans, respectively. The dominant users of commercial loan servicers are commercial mortgage-backed bond trusts and other owners of commercial real estate loans, including lenders accumulating loans for securitization or sale that contract for servicing on an interim basis. Historically, the revenue stream from servicing contracts on commercial mortgages has been relatively predictable as prepayment penalties in commercial mortgages tend to discourage early loan payoffs.

Primary servicing of whole loans involves collecting monthly mortgage payments, maintaining escrow accounts for the payment of ad valorem taxes and insurance premiums on behalf of borrowers, remitting payments of principal and interest promptly to investors in the underlying mortgages, reporting to those investors on financial transactions related to such mortgages and generally administering the loans. The servicer of whole loans also must cause properties to be inspected periodically, determine the adequacy of insurance coverage on each property and monitor delinquent accounts for payment. Servicer rates are determined by a bidding and negotiating process. AMRESCO Services is approved as a primary servicer by all four rating agencies.

Master servicing involves providing administrative and reporting services to securitized pools of mortgage-backed securities. Typically, mortgages underlying mortgage-backed securities are serviced by a number of primary servicers. In fact, AMRESCO Services is a primary servicer for many of the loans for which it is also a master servicer. Under most master servicing arrangements, the primary servicers retain principal responsibility for administering the mortgage loans and the master servicer acts as an intermediary in overseeing the work of the primary servicers, monitoring their compliance with the issuer's standards and consolidating their respective periodic accounting reports for transmission to the securitization trustee in respect of the related securities. The Company frequently is designated as the full servicer for a pool of mortgages, in which case the Company acts as master, primary, and, in some cases, special servicer for the pool. Master/full servicers are typically paid fees based on the Face Value of loans under management, and the compensation is determined by a bidding and negotiating

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process. AMRESCO Services is approved as a master servicer by all four rating agencies.

Home Equity Lending Business

General. Through home equity lending, the Company originates, acquires, warehouses, services and sells home equity loans. Home equity lending's loan production was $3.5 billion as compared to $3.6 billion for the years ended December 31, 1998 and 1997, respectively. In late 1998, the Company suffered significant losses related to home equity loans accumulated and held for subsequent securitization. As a result, the Company discontinued its "bulk" purchase of home equity loans and origination of home equity loans through correspondent channels, which collectively accounted for approximately $2.4 billion and $2.7 billion of loan volumes for the year ended December 31, 1998 and 1997, respectively. Currently, all loans originated by the Company are sold in "whole loan" sale transactions. The Company has re-focused its home equity lending business toward its retail and wholesale operations, the area of the home equity lending segment considered to hold the greatest potential for profitable growth.

Borrower Profile and Underwriting. The Company targets borrowers that have credit profiles that preclude their loans from being sold in the government agency secondary markets. Such credit profiles may include consumer or mortgage loan delinquencies, high debt-to-income ratios, previous bankruptcy or inability to provide income documentation. Borrowers in the Company's targeted market typically have significant equity in their homes and may be charged higher interest rates for loans than more creditworthy borrowers. The Company believes that the higher interest rates and the more favorable loan-to-value characteristics of this market mitigate the greater credit risk associated with such borrowers and make this an attractive market for the Company.

The home equity loans originated or acquired by the Company are underwritten in accordance with the Company's guidelines or the guidelines of the third party originator which have been submitted to and approved by the Company. In general, higher credit risk mortgage loans are graded in categories which permit higher debt ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies. The underwriting guidelines generally establish lower loan-to-value ratios and loan amounts for higher credit risk mortgage loans.

Loan Products. The home equity loans originated and acquired by the Company consist of fixed and adjustable rate conventional, nonconforming mortgage loans with remaining terms to maturity of not more than 360 months and secured by deeds of trust, security deeds or mortgages. The properties securing the home equity loans consist primarily of single family residences (which may be attached, detached, part of a two-to-four-family dwelling, a condominium unit or a unit in a planned unit development). The properties securing the home equity loans may be owner occupied or non-owner occupied investment properties. The Company's home equity loan products include fixed rate loans that bear a fixed rate of interest for the life of the loan, adjustable rate loans that bear interest at rates that adjust, along with related monthly payments, periodically (generally semiannually) based on a specified financial index or quoted rate and loans that bear a fixed rate of interest for a specified period following origination (generally 2, 3 or 5 years) with periodic rate adjustments thereafter based on a specified financial index or quoted rate. In a majority of cases, the home equity loans can be prepaid by the mortgagor in whole or in part at any time, although the mortgagor may be required to pay a fee in connection with certain prepayments.

Loan Sources. Since restructuring its operations in October 1998, the Company has obtained home equity loans through its wholesale broker operations and through various retail channels, including telemarketing, direct mail and retail branches. Wholesale operations involve the origination of loans through the Company's network of branch offices. Retail operations involve consumer direct mail, a retail sales center and retail branch operations. In its retail operations the Company works directly with consumers to originate, underwrite and close mortgage loans.

Portfolio Performance. The following table provides information with respect to prepayments, delinquencies and net losses for each of the Company's securitizations as of December 31, 1998 prior to any potential recoveries:

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Security	Issuance Date	Original Balance	Balance Outstanding	CPR % Actual(1)	Delinquencies (2) 30-59	60-89	90+	% Net Losses(3)
			(dollars in millions)					
1996-1	01/25/96	$ 275	$ 72	34.86%	2.10%	2.10%	5.19%	0.89%
1996-2	04/25/96	257	48	43.69	1.25	1.73	5.84	0.64
1996-3	06/20/96	267	114	26.27	1.29	1.02	6.75	0.57
1996-4	08/28/96	311	81	40.02	2.67	1.80	15.16	0.57
1996-5	12/18/96	700	247	35.98	3.04	1.79	15.29	0.52
1997-1	03/26/97	605	329	27.02	2.39	1.29	12.81	0.43
1997-2	06/12/97	740	440	26.67	2.29	1.16	11.24	0.33
1997-3	09/16/97	950	640	24.03	2.11	1.64	8.61	0.20
1998-1	02/12/98	1,000	773	22.43	3.08	1.76	9.16	0.03
1998-2	06/12/98	1,000	805	29.26	2.52	1.48	5.07	0.00
1998-3	09/29/98	1,000	939	14.55	2.46	1.10	1.92	0.00
Weighted average (4)				24.57%	2.49%	1.45%	7.59%	0.17%

(1) The Constant Prepayment Rate ("CPR") represents the rate of prepayment experienced by the referenced securitized pool of mortgage loans, expressed as an annual rate, relative to the outstanding principal balance over the life of mortgage loans. CPR is equal to Pure Prepayment ("PPR") (5) - Liquidation Proceeds + Realized Losses + Buyouts + Scheduled Principal Payments.

(2) The period of delinquency is based on the number of days payments are contractually past due. The delinquency statistics for the 90+ days data includes loans in foreclosure.

(3) Net losses represents the aggregate amount, expressed as a percentage of the original balance, which has been determined to be uncollectible relating to mortgage loans, less recoveries from liquidation proceeds and deficiency judgments.

(4) Based on the balance outstanding at December 31, 1998.

(5) "PPR" is equal to voluntary borrower payoffs plus curtailments.

Home Equity Loan Servicing. Since the acquisition of the assets and business of Quality Mortgage USA in October 1996, the Company has performed delinquency management and related servicing functions for the asset portfolios acquired from Quality Mortgage USA and for loans originated by the Company after October 1, 1997 or acquired by it on a servicing released basis. As of December 31, 1998, the Company was the special servicer for $3.0 billion of home equity loans. In addition, the Company is in the process of developing the appropriate infrastructure and systems to support a broader array of customer-intensive servicing functions, including general customer relations. The Company believes that customer intensive servicing functions, such as collections, delinquency management and general customer relations provide the opportunity to manage and improve the performance of its home equity loan portfolios by mitigating credit losses and prepayment risk through direct involvement with borrowers. The Company will continue to utilize recognized third party providers for portfolios of home equity loans currently being serviced by such providers, as well as for standardized, systems intensive servicing functions, such as payment processing and tax, insurance and investor reporting.

Commercial Finance Business

General. In 1996, the Company formally organized the commercial finance group which has grown through a combination of corporate acquisitions and business development to provide financing to commercial borrowers in various targeted lending markets. The commercial finance group is divided into four operating units: business lending, real estate structured finance, communications lending and builder finance.

Business Lending. The business lending group, which essentially began operations through the 1997 acquisition of Commercial Lending Corporation ("ACLC"), focuses on three lending sub-markets; conventional small business loans, government guaranteed SBA loans ("Program 7A") and, telephone and equipment financing.

Conventional small business lending concentrates on the origination, securitization and servicing of loans made to small business owners or franchisees of nationally recognized fast food chains, family dining establishments, hotels and motels, automotive

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after-market service providers and truck stops. Borrower profiles emphasize, among other things, the borrower's experience with the particular operating concept (i.e. fast food, quick oil change, etc.) and cash flow of the respective operating units. Typically, loans are for refinance, construction, remodeling or purchase of existing facilities. The loans are funded primarily by a dedicated warehouse facility until they are securitized and sold.

The SBA lending group was formed by the July 1998 acquisition of Independence Funding Company, LLC ("IFC"). As one of only 14 non-bank SBA lenders in the United States, the SBA lending group makes loans under SBA Program 7A to qualifying small business owners. A portion, typically 75%, of the principal balance is guaranteed by the SBA and sold at a premium to individual investors via a bid process approximately two to three weeks after the loan is closed. The remaining non-guaranteed portion of the loan is retained for future securitization along with the interest spread between the contractual rate and the investor pass-through rate on the guaranteed portion. The SBA loans are funded primarily by a warehouse debt facility.

The telephone equipment finance group was formed by the July 1998 acquisition of TeleCapital, L.P. ("TeleCapital"). The group's primary focus is the origination and servicing of loans which are collateralized by privately owned and operated payphone routes and related equipment. The loans are primarily accumulated for the purpose of securitization and sale and they are funded largely through a warehouse debt facility.

The equipment finance group also provides lease financing for business equipment, primarily restaurant equipment, based on referrals from business lending borrowers. Typically this group will fund the individual equipment purchases during installation and then sell the lease to a third party once fully funded and installed. The total leasing advances in 1998 and 1997 were $5.8 million and $3.3 million, respectively, and sales of completed leases were $5.6 million and $3.3 million, respectively.

The business lending group processes, underwrites, sells, securitizes and services loans originated from producers in over 20 offices. The producers solicit business using a combination of marketing efforts that include direct solicitation, convention attendance and referrals from previous borrowers. The following table summarizes loan origination volumes for the years ended December 31, 1998 and 1997, respectively (dollars in thousands):

	12/31/98	% of Total	12/31/97	% of Total
Conventional lending (1)	$392,303	82.2%	$247,104	100.0%
SBA lending (2)	59,228	12.4		
Telephone equipment lending (2)	25,920	5.4		
Total	$477,541	100.0%	$247,104	100.0%

(1) The Company acquired the business and assets of ACLC effective March 31, 1997.
(2) Acquired July 16, 1998.

Since the acquisition of ACLC in 1997, the Company has completed five securitizations aggregating $686.9 million. The loans included in each securitization are grouped according to type of borrower consisting of either (i) loans to franchisees of nationally recognized concepts (i.e. Taco Bell, Pizza Hut, etc.) or (ii) loans to owners of other independent small businesses. The securitization structure consists of (i) multiple classes of investment grade certificates that are sold via private placement to investors and (ii) an equity interest and subordinated certificate retained by the Company.

Investment grade ratings for the securities are achieved by (i) limited cross-guarantee loan provisions for the various borrowers within the securitization and (ii) financial guarantee insurance. In the limited cross-guarantee arrangement, each borrower signs a Note for an amount greater than their net loan proceeds and makes payments based on the higher Note amount. This increment above the loan amount, known as the credit enhancement amount, is rebated to the borrower after they make their monthly payment assuming no deficiency exists in the securitization pool. Should a deficiency occur within the pool, the rebates of the performing loans have been pledged to cure such deficiency and are applied in an amount to bring the loan pool to a non-delinquent status. Once the deficiency is cured, the recovered rebates are returned to the appropriate borrowers.

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As noted above, the business lending group retains a subordinated interest in the securitization. The certificate's value at any point in time is based on the projected future cash flow spread between the interest collected from borrowers and interest paid to certificate holders, discounted to present value. The following table depicts the business lending group's retained interests in securitizations balances and related portfolio delinquency percentages (including an SBA residual acquired as a result of the purchase of IFC) as of December 31, 1998 and 1997 (dollars in thousands):

	1998			1997		
	Retained Interest Balance	% of Total	Delinquency Percentage 90+ days	Retained Interest Balance	% of Total	Delinquency Percentage 90+ days
Franchise	$39,412	50.9%	1.2%	$28,732	100.0%	1.0%
Conventional small business	31,259	40.3	0.0			
SBA Loans	6,831	8.8	3.1			
Total	$77,502	100.0%	1.0%	$28,732	100.0%	1.0%

The business lending group retains the servicing rights to loans following sale or securitization. Due primarily to the cross-guarantee credit enhancement feature of the securities described above, the Company has developed a specialized servicing process for these loans. In addition, loan servicing utilizes a third party software system customized for the servicing of SBA loans. The following table summarizes the loan servicing portfolio and related delinquency profile as of December 31, 1998 and 1997, respectively (dollars in thousands):

	12/31/98	% of Total	12/31/97	% of Total
Conventional lending (1)	$ 898,505	74.4%	$563,718	100.0%
SBA lending (2)	267,830	22.2		
Telephone equipment lending(2)	41,054	3.4		
Total	$1,207,389	100.0%	$563,718	100.0%
Delinquencies (3):				
31-60 Days	$ 6,616			
61-90 Days	1,145			
90+ Days	11,870		$5,729	
Total	$19,631		$5,729	
Total delinquencies as a percentage of total loan balances (4):	1.63%		1.02%	

(1) The Company acquired the business and assets of ACLC effective March 31, 1997.
(2) Acquired July 16, 1998.
(3) The period of delinquency is based on the number of days payments are contractually past due.
(4) Reflects contractual delinquencies. At December 31, 1998 and 1997, all borrower delinquencies related to business lending loans were paid by borrower cross guarantees. See Note 6 of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for a discussion of borrower cross guarantees.

Real Estate Lending. In 1995, the Company began making loans through AMRESCO Funding which was subsequently divided into the real estate lending and communication finance divisions. In the real estate lending operation, the Company provides mid-to-high yield financing to borrowers in special situations that generally preclude financing from traditional funding sources. In these transactions, the Company funds senior and subordinated indebtedness generally ranging from $2 to $15 million for terms of 1-4 years to borrowers with an established management record. Borrowers targeted by the Company usually have a reputation for enhancing value, but may lack the financial capacity to qualify for bank financing beyond a certain level. Typically these loans have a defined exit strategy such as bridge loans, mezzanine debt or construction loans and are often extended for the purpose of turning around or repositioning assets to maximize their value. Loan structures vary as they are usually customized to fit the characteristics and purpose of the loans. Income is generally derived by a combination of interest, fees and (in some cases) a net profit interest tied to the performance of the collateral at loan payoff. Also, the Company makes limited equity

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investments in ventures where they are also a lender. The Company had loan balances outstanding of $195.1 million, $109.7 million, $21.9 million and $0.7 million as of December 31, 1998, 1997, 1996 and 1995, respectively. The following table shows the combined real estate loan and joint venture equity balances as of December 31, 1998 and 1997 by collateral type (dollars in thousands):

	1998			1997		
		% of	Delinquency Percentage		% of	Delinquency Percentage
	Balance	Total	90+ days	Balance	Total	90+ days
Multi-family	$ 57,474	29.5%	0.0%	$32,521	29.6%	0.0%
Office	52,371	26.8	0.0	38,054	34.7	0.0
Industrial	26,911	13.8	0.0			0.0
Hospitality	19,584	10.0	0.0	3,518	3.2	0.0
Retail	19,356	9.9	0.0	17,760	16.2	0.0
Mixed Use	13,040	6.7	0.0	1,664	1.5	0.0
Other	6,396	3.3	0.0	16,203	14.8	0.0
Total	$195,132	100.0%	0.0%	$109,720	100.0%	0.0%

Communications Lending. The Company also specializes in mid-to-high yield lending in the communications industry to operators that cannot obtain traditional bank financing. Loan amounts range from $3 million to $40 million, though loans in the upper half of this range typically are participated to other lenders. Borrowers generally use proceeds to acquire radio and television stations, provide working capital and refinance existing third party debt. The Company had loan balances outstanding of $144.8 million, $38.7 million, $11.7 million and $1.0 million as of December 31, 1998, 1997, 1996 and 1995, respectively. The following table depicts the collateral distribution of the communications portfolio as of December 31, 1998 and 1997 (dollars in thousands):

	1998			1997		
		% of	Delinquency Percentage		% of	Delinquency Percentage
	Balance	Total	90+ days	Balance	Total	90+ days
Radio	$112,940	78.0%	0.0%	$36,302	93.7%	0.0%
Television	31,872	22.0	0.0	2,430	6.3	0.0
Total	$144,812	100.0%	0.0%	$38,732	100.0%	0.0%

Builder Finance Group. In January 1997, the Company established the builder finance group to provide construction financing to builders of first time and first move-up homes. To facilitate this effort, the Company hired an experienced lending and servicing team formerly associated with a Texas financial institution. Builder finance targets experienced homebuilders that are starting anywhere from 100 to 1500 units per year in the $90,000 to $200,000 price range. Prospective borrowers must also have a minimum of three years proven experience in building and selling homes, satisfactory financial condition and acceptable credit history. Builder finance also provides a limited amount of acquisition and development lending for residential lots that are ready for home building which will serve as feeder stock for the construction loan program. Funding for these loans is provided by a warehouse debt facility.

Based in Houston, Texas with a state of the art loan servicing facility, the builder finance group currently has 10 loan production offices in the United States and plans to further expand the production office network in 1999. Producers are (and will be) located in markets that have large or growing populations of home buying age with qualifying incomes. These markets must also have a good balance of housing inventory as well as acceptable lot and home absorption patterns. General economic and employment conditions must be positive as well.

As of December 31, 1998 and 1997, loan balances outstanding were $128.4 million and $65.5 million on year-to-date advances of $268.9 million and $124.3 million, respectively.

Residential Mortgage Banking

General. Through the August 12, 1998 acquisition of MIC, the Company refinances and sells Veteran's Administration ("VA") residential mortgage loans under the VA's interest rate reduction refinance loan ("IRRRL") program. All loans refinanced under the IRRRL program are guaranteed or insured, usually within 61 days of funding. MIC's loan refinancings aggregated $1.6 billion for the August 12, 1998 through December 31, 1998 period.

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Loan Product. The residential mortgage loans refinanced by MIC consist solely of 30-year fixed rate loans. No other loan products were offered in 1998. Typically, the refinanced loans have a well-seasoned pay history and are refinanced at below market interest rates. Management believes that these loans are attractive to investors and servicers because of the historically low prepayment and default rates and the below market interest rates offered. Prepayment and default rates on these loans tend to be low due to the lower monthly payment as a result of the refinance and the underlying guarantee which limits exposure to losses. The Company anticipates diversifying into additional products in 1999 potentially in the form of FHA adjustable rate product, second mortgages and/or insurance.

Loan Sources. The Company obtains its refinanced loans through its own focused telemarketing database and related loan officers, of which the primary operating expense of MIC is commissions to the loan officers which vary with production. The loan officers are located in 41 offices throughout the United States. The telemarketing and loan processing functions are centralized in St. Petersburg, Florida, thus allowing the loan officers to focus solely on selling.

Sales of Loans and Servicing. Throughout 1998, MIC sold all loans on a servicing released basis. The Company typically enters into forward sale agreements in the 30-year fixed rate GNMA market for all production. The production is typically sold at a discount due to the below market interest rates on the refinanced loans. MIC sells the loans to the entity that will be the ultimate servicer of the loans and the servicer assumes the Company's obligation to deliver on the GNMA forward sale commitment. The servicer pools the loans and creates a 30-year fixed rate GNMA security, delivers on the forward sale commitment, and retains the servicing.

Competition

General. The Company's competition varies by business line and geographic market. Generally, competition within each of the business lines in which the Company competes is fragmented, with national, local and regional competitors, none of which dominates a particular business line. Certain of the Company's competitors within each of its business lines are larger and have greater financial resources than the Company.

Asset Management. The Asset Management business is a nationwide (and increasingly international) business with numerous financially strong and experienced competitors. The Company continues to encounter increased competition in the market for asset portfolios which could cause the Company to experience decreasing profit margins in this business line in order to remain a competitive bidder for asset portfolios. In addition, declining profit margins presented by current bidding opportunities has caused the Company to re-deploy its capital in more profitable product lines.

Commercial Mortgage Banking. The Company's commercial mortgage banking business consists of real estate capital markets, commercial real estate lending and commercial loan servicing business lines. In each of these business lines, the Company competes on a nationwide basis. The real estate capital markets and commercial real estate lending businesses are fragmented, composed primarily of small local or regional firms. The Company believes that the commercial mortgage banking industry is moving toward greater consolidation and that well capitalized, full service, nationwide mortgage banking firms will emerge from this consolidation.

The commercial loan servicing business is highly competitive. Distinct markets have developed for the servicing of performing loan pools, under-performing loan pools and non-performing loan pools. The Company has focused its commercial loan servicing business on the market for performing loan pools, the servicing market that management believes has the greatest potential for growth.

Home Equity Lending. The Company has encountered increased competition in the market for conventional, nonconforming home equity loans as more originators enter this market which could impact origination volume and profit margins. In addition, certain of the Company's larger, national competitors have access to greater financial resources and lower costs of capital.

Commercial Finance. The markets in which the Commercial Finance business operates are highly competitive and are characterized by competitive factors that vary based upon product and geographic

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region. The Commercial Finance Group's competitors include captive and independent diversified finance companies, specialty finance companies (including specialty franchise finance companies), commercial banks, thrift institutions, asset-based lenders, real estate investment trusts and leasing companies. Many of the competitors of the Commercial Finance Group are large companies that have substantial capital, technological and marketing resources, and some of these companies may have lower costs of capital than is available to the Commercial Finance business.

Residential Mortgage Banking. The market in which the Residential Mortgage Banking business operates is characterized by few originators of streamlined VA refinanced loans. The Company believes that it is an effective competitor in this market.

Employees

At December 31, 1998, the Company and its subsidiaries employed 3,693 persons. Of that total, 189 were employed in the asset management group, 718 in the commercial mortgage banking group, 698 persons in the home equity lending group, 262 in the commercial finance group, 1,554 in the residential mortgage banking group and 272 in general corporate administration. The Company believes that its employee relations are generally good. The Company has no collective bargaining arrangements.

Certain Definitions

The following are certain defined terms used herein:

"ACLC" means AMRESCO Commercial Lending Corporation, a subsidiary of the Company.

"AMRESCO Capital" means AMRESCO Capital L.P., a limited partnership.

"AMRESCO Funding" means AMRESCO Funding Corporation, a subsidiary of the Company.

"AMRESCO Services" means a division of AMRESCO Management, Inc., a subsidiary of the Company.

"Company" means, unless otherwise stated herein or unless the context otherwise requires, the Company and each of its subsidiaries.

"Conduit Purchasers" means investment bankers and other financial intermediaries who purchase or otherwise accumulate pools or portfolios of loans having common features (e.g., real estate mortgages, etc.), with the intent of securitizing such loan assets and selling them to a trust that secures its funds by selling ownership interests in the trust to public or private investors.

"DUS" means the Delegated Underwriting and Servicing program established by Fannie Mae that permits a DUS approved lender to commit and close loans for multifamily mortgages for resale to Fannie Mae without Fannie Mae's prior approval of such loans.

"Face Value" means, with respect to any loan or Asset Portfolio, the aggregate unpaid principal balance of a loan or loans.

"Fannie Mae" means the Federal National Mortgage Association.

"Freddie Mac" means the Federal Home Loan Mortgage Corporation.

"Holliday Fenoglio Fowler" means Holliday Fenoglio Fowler, L.P., a limited partnership.

"MIC" means Mortgage Investors Corporation a Florida based corporation.

"Quality Mortgage USA" means Quality Mortgage USA, Inc., a California corporation.

"securitization" and "securitized" mean a transaction in which loans originated or purchased by an entity are sold to special purpose entities organized for the purpose of issuing asset-backed securities.

Item 2. Properties

The Company leases approximately 199,087 square feet in the North

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Tower of the Plaza of the Americas in Dallas, Texas for its centralized corporate functions including executive, business development and marketing, accounting, legal, human resources and support and also certain line of business operations. This lease has an initial termination date of October 31, 2006 and has an initial annual base rent of approximately $2.2 million. The Company also leases space for branch offices pursuant to leases with varying terms.

The Company believes that its facilities are adequate for its immediate needs and that additional or substitute space is available, if needed, to accommodate expansion.

Item 3. Legal Proceedings

The Company is involved from time to time in various legal proceedings arising in the ordinary course of business. In connection with the Company's loan servicing, asset management and resolution activities, the Company is indemnified to varying degrees by the party on whose behalf the Company is acting. The Company also maintains insurance that management believes is adequate for the Company's operations. None of the legal proceedings in which the Company is currently involved, either individually or in the aggregate (and after consideration of available indemnities and insurance), is expected to have a material adverse effect on the Company's business or financial condition.

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

No matters were submitted to a vote of the Company's security holders during the fiscal quarter ended December 31, 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

The Company's common stock (Symbol: AMMB) is listed on the Nasdaq Stock Market. At March 22, 1999, there were approximately 2,600 stockholders of record of the Company's common stock. Presented below are the high and low last sale prices per share for 1998 and 1997, as reported by NASDAQ. The Company discontinued declaring dividends beginning with the fourth quarter of 1995 and the Company does not expect to declare dividends on its common stock in the foreseeable future.

	High	Low
1997		
First Quarter	$25.500	$15.125
Second Quarter	21.500	13.875
Third Quarter	37.125	21.750
Fourth Quarter	37.125	24.000
1998		
First Quarter	$33.750	$23.250
Second Quarter	38.750	29.125
Third Quarter	30.125	7.250
Fourth Quarter	8.938	2.031

Item 6. Selected Financial Data

The selected financial data set forth below for the five years ended December 31, 1998 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as the audited consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data."

<TABLE>
<CAPTION>

	Year Ended and as of				
	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994
	(in thousands, except per share data)				
Operating Results:					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$526,804	$ 418,273	$ 200,067	$110,486	$129,791
Income (loss) from continuing operations	(69,171)	56,224	31,332	18,665	20,933
Net income (loss)	(69,171)	56,224	31,332	21,090	18,748
Earnings (loss) per shre from continuing					

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operations:					
Basic	(1.61)	1.59	1.16	0.77	0.91
Diluted	(1.61)	1.53	1.06	0.75	0.88
Earnings per share:					
Basic	(1.61)	1.59	1.16	0.87	0.82
Diluted	(1.61)	1.53	1.06	0.85	0.79
Dividends per share	-	-	-	0.15	0.20
Balance Sheet Data:					
Total assets	2,918,710	2,633,848	1,075,941	521,713	172,340
Long-term obligations (1)	1,052,877	695,845	293,956	112,500	
Total liabilities	2,333,303	2,225,348	774,426	360,919	58,754
Total shareholders' equity	585,407	408,500	301,515	160,794	113,586

</TABLE>

(1) The December 31, 1998 balance does not include $167.5 million of indebtedness under the Company's $737.5 million Credit Agreement which is due August 11, 1999 and $57.5 million of indebtedness under the Company's Senior Notes due July 1, 1999. As of December 31, 1998, $640.2 million was outstanding under the Company's Credit Agreement.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is a diversified financial services company with five principal lines of business: asset management, commercial mortgage banking, home equity lending, commercial finance and residential mortgage banking. The asset management business involves acquiring asset portfolios at a discount to face value and managing and resolving such asset portfolios to maximize cash recoveries. In addition, in its asset management business, the Company provides special servicing for nonperforming and underperforming loans in commercial mortgage-backed bond trusts and similar securitized commercial asset-backed loan portfolios. The commercial mortgage banking business involves fee based origination and servicing of commercial real estate mortgages and commercial real estate brokerage. The home equity lending business involves originating, selling and servicing nonconforming first mortgage loans. In its commercial finance business, the Company focuses on (i) loans to franchisees of nationally recognized restaurant, hospitality and service organizations, (ii) loans to small business owners, (iii) real estate structured finance, (iv) communications finance and (v) single family residential construction lending. The residential mortgage banking line of business (which consists of the newly acquired operations of Mortgage Investors Corporation ("MIC")) originates and sells Veterans Administration ("VA") streamlined re-financed loans.

During the latter part of 1998, the capital markets experienced rapid and extreme changes evidenced by a decline of investor demand for corporate fixed income investments, including mortgage-backed securities ("MBS"), and a widening of spreads between interest rates on treasury securities and interest rates on MBS. The widening of spreads between treasury securities and MBS resulted in securitized lenders, such as the Company, having to meet significant margin calls from the lenders who had financed the accumulation of mortgage loans intended for securitization and margin calls caused by the decline in the value of related hedge positions. At this time the Company held approximately $2.4 billion of commercial mortgage and home equity loans on its balance sheet.

The Company made the decision to re-focus its commercial mortgage banking business to emphasize its operations which have historically provided strong and predictable earnings growth: (i) core real estate investment banking and mortgage banking through Holliday Fenoglio Fowler, (ii) commercial mortgage loan originations and sales under agency multifamily lending programs with quasi-governmental agencies, such as Fannie Mae and Freddie Mac, and "private label" conduit programs with institutional participants and (iii) commercial mortgage loan servicing through AMRESCO Services. In connection with this decision, and in response to the Company's rapidly changing liquidity needs, the Company sold its portfolio of commercial mortgage loans aggregating approximately $1.0 billion. Based upon current market conditions, the Company is currently not operating as a principal in the commercial mortgage loan conduit business. Additionally, the Company made the decision to focus its home equity lending business on its retail and wholesale operations which possess the most potential for growth. In connection with this decision, and in response to the Company's rapidly changing liquidity needs, the Company decided to sell its portfolio of performing home equity loans aggregating approximately $1.4 billion. The Company discontinued the "bulk"

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purchase of home equity loans and the origination of home equity loans through its correspondent channel. These significant changes in the composition of the Company's business are reflected in the Company's results of operations and may limit the comparability of the Company's results from period to period. In connection with the sales of these loans and related matters in the third and fourth quarters of 1998, the Company incurred significant losses. See further discussion under "Results of Operations."

Revenues from the Company's asset management activities primarily consist of earnings on asset portfolios, fees charged for the management of asset portfolios and for the successful resolution of the assets within such asset portfolios and gains on sale of investments. The Company's revenues from its commercial mortgage banking activities are primarily earned from fees generated by the (i) origination and underwriting of commercial real estate mortgage loans, (ii) placement of such loans with permanent investors, (iii) servicing of loans and (iv) interest earned on commercial loans held for sale. Revenues from the Company's home equity lending activities primarily consist of interest earned on originated and purchased home equity loans, accrued earnings on retained interests in securitizations, gains on the securitization and sale of home equity loans and other related securities and fees generated by the origination, underwriting and servicing of home equity loans. Revenues from the Company's commercial finance business are primarily earned from (i) interest and fees on real estate structured and communications lending activities, loans to franchisees of nationally recognized restaurant, hospitality, service organizations and other small business owners and loans to single family residential contractors, (ii) accrued earnings on retained interests in securitizations and (iii) gains on the securitization and sale of loans. Revenues from the Company's residential mortgage banking activities consist primarily of cash gains from sales of VA streamlined re-financed loans.

Retained interests in securitizations are classified as trading and are carried at estimated fair market value. Changes in such market value are included in earnings. Cash flows for retained interests in securitizations are generally subordinated to other security holders in a securitization trust. The retained interests in securitizations are valued at the discounted present value of the cash flows based upon the expected timing of the release of the cash by the securitization trust ("cash-out method") over the anticipated life of the assets sold after estimated future credit losses, estimated prepayments and normal servicing and other related fees. The discounted present value of such retained interests is computed using management's assumptions of market discount rates, prepayment rates, default rates, credit losses and other costs. The carrying value of the retained interests in securitizations is determined by the Company on a disaggregated basis and considers historical prepayment and loss experience, economic conditions and trends, collateral values and other relevant factors. The actual weighted average annual prepayment rate on the Company's home equity securitizations was 24.6% for the period from inception of each security through December 31, 1998, which is slightly higher than originally projected, and is estimated to be 29.4% for the next twelve months. Prepayment rates on the Company's franchise and small business loan securitizations have been consistent with original expectations. Current valuations take into account the change in prepayment assumptions as well as other assumptions influenced by market conditions. The discount rate used to value the retained interests is influenced primarily by the underlying loan rate and the volatility and predictability of the underlying cash flows which generally become more certain as the securities season. The weighted average discount rate used to value the Company's retained interests at December 31, 1998 was 18.0%. The Company has utilized, for initial valuation purposes in 1998, a 20% discount rate on its home equity securitizations, discount rates ranging from 18% - 20% for its commercial finance franchise loan securitizations and a 15% discount rate on its commercial finance small business loan securitizations. As discussed, the estimated market rate changes over time to reflect management's estimate of market rates. The lower discount rate on the commercial finance securitizations were due to the reduced risk related to a borrower cross-collateralization feature in these securitizations. For additional information regarding the Company's retained interests in securitizations see "Item 1. Business" and notes 1 and 6 to the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

Results of Operations

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The following discussion and analysis presents the significant changes in financial condition and results of operations of the Company by primary business line for the years ended December 31, 1998, 1997 and 1996. The results of operations of acquired businesses are included in the consolidated financial statements from the date of acquisition. This discussion should be read in conjunction with "Item 1. Business" and "Item 8. Financial Statements and Supplementary Data" (in thousands, except per share data).

	1998	1997	1996
Revenues:			
Asset management	$ 112,687	$103,581	$88,755
Commercial mortgage banking	71,018	97,533	54,625
Home equity lending	145,069	166,407	56,864
Commercial finance	122,047	51,212	2,947
Residential mortgage banking	74,702		
Corporate, other and intercompany eliminations	1,281	(460)	(3,124)
Total revenues	526,804	418,273	200,067
Operating expenses:			
Asset management	72,849	57,711	47,469
Commercial mortgage banking	175,389	70,334	43,163
Home equity lending	219,788	120,244	29,543
Commercial finance	75,456	32,137	2,252
Residential mortgage banking	41,776		
Corporate, other and intercompany eliminations	43,379	45,750	27,174
Total operating expenses	628,637	326,176	149,601
Operating income (loss):			
Asset management	39,838	45,870	41,286
Commercial mortgage banking	(104,371)	27,199	11,462
Home equity lending	(74,719)	46,163	27,321
Commercial finance	46,591	19,075	695
Residential mortgage banking	32,926		
Corporate, other and intercompany eliminations	(42,098)	(46,210)	(30,298)
Total operating income(loss)	(101,833)	92,097	50,466
Income tax expense (benefit)	(32,662)	35,873	19,134
Net income (loss)	$ (69,171)	$ 56,224	$ 31,332
Earnings (loss) per share:			
Basic	$(1.61)	$1.59	$1.16
Diluted	(1.61)	1.53	1.06
Weighted average number of common shares outstanding - diluted	42,846	36,663	31,774

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

The Company reported revenues of $526.8 million, an increase from $418.3 million, or 26%, from the year ended December 31, 1997, an operating loss of $101.8 million as compared to 1997 operating income of $92.1 million and a net loss of $69.2 million as compared to 1997 net income of $56.2 million. The losses were due primarily to the sale of $1.4 billion and $936 million of home equity lending and commercial mortgage banking loans held for sale, respectively, which occurred in response to unprecedented capital market conditions that caused spreads on MBS and related instruments to widen. Diluted weighted average common shares outstanding increased 17% due primarily to the early 1998 offering of 5.2 million of the Company's common shares and new shares issued in business acquisitions.

Asset Management. Revenues for the year ended December 31, 1998 primarily consisted of $89.6 million in interest and other investment income, $17.7 million in asset management and resolution fees and $3.4 million of gains on sales of loans and investments. The $9.1 million increase in revenues from $103.6 million for 1997 to $112.7 million for the year ended December 31, 1998 was primarily comprised of a $30.4 million increase in interest and other investment income offset, in part, by a $14.5 million decrease in gain on sale of loans and investments and a $7.2 million decrease in management and resolution fees. Interest and other investment income increased due primarily to a significant increase in aggregate investments for the Company's own account. Gain on sale of loans and investments decreased due primarily to impairment and hedging losses on MBS in 1998 as opposed to MBS sale gains in 1997.

Operating expenses for the year ended December 31, 1998 primarily consisted of $38.0 million in interest expense, $16.4 million in other general and administrative expenses and $15.3 million in personnel

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expenses. The $15.1 million increase in expenses from $57.7 million for the prior year to $72.8 million for the year ended December 31, 1998 was due primarily to a $15.4 million increase in interest expense related to the financing of increased levels of investments and a $5.2 million increase in other general and administrative expenses offset, in part, by a $2.2 million decrease in personnel expenses resulting from fewer assets being managed.

Commercial Mortgage Banking. Revenues for the year ended December 31, 1998 were $71.0 million, a decrease of $26.5 million from the prior year period. Revenues for the year ended December 31, 1998 primarily consisted of $103.7 million in origination, underwriting and servicing revenues and $71.6 million in interest and other investment income and reflect an increase of $52.4 million increase in interest earned on a higher balances of loans held for sale and escrow deposits from increased servicing volumes and a $39.2 million increase in mortgage banking and servicing revenues due primarily to transaction volume of $12.6 billion for the year ended December 31, 1998 as compared to $7.8 billion for 1997. The decrease in revenues is primarily attributable to losses of $117.6 million related to the commercial mortgage conduit loans sale and related matters described below.

In October of 1998, in response to the market turmoil caused by the unprecedented widening of interest rate spreads on MBS and due to the Company's rapidly changing liquidity needs, the Company decided to sell its portfolio of commercial mortgage conduit loans aggregating approximately $936.0 million and to negotiate with borrowers to release the Company from commitments to fund approximately $400.0 million of commercial mortgage loans in the conduit program. In connection with the commercial mortgage conduit loan sale, the Company retained an interest in the loans sold which entitles the Company to receive a portion of the proceeds of a subsequent securitization or sale of the loans sold in excess of the purchase price, investment banking fees and transaction costs. As of December 31, 1998, the retained interest balance was approximately $23.2 million, related to approximately $500.0 million of commercial mortgage loans, which represents the Company's remaining maximum exposure related to this loan sale.

Operating expenses for the year ended December 31, 1998 primarily consisted of $82.9 million in personnel expense, $44.3 million in other general and administrative expense and $40.6 million in interest expense. The $105.1 million increase in expenses from $70.3 million for the prior year to $175.4 million for the year ended December 31, 1998 was due primarily to an increase of $37.4 million in interest expense related to warehouse debt for loans held for sale, $33.6 million in personnel expenses primarily related to commissions on increased originations and expansion and an increase of $31.9 million in other general and administrative expense due to expanded operations.

Home Equity Lending. Revenues for the year ended December 31, 1998 were $145.1 million, a decrease of $21.3 million from the prior year period. Revenues for the year ended December 31, 1998 primarily consisted of $152.8 million in interest and other investment income and reflect a $62.6 million increase in interest income, which is after mark-to-market reductions on retained interests in securitizations of $16.1 million, generated by higher average balances of mortgage loans held for sale during 1998 offset, in part, by $16.6 million of loss on sale of loans held for sale. The decrease in revenues and the $16.6 million loss on sale is primarily attributable to a $101.6 million loss on sale of loans held for sale as described below.

In October of 1998, due to the market turmoil caused by the widening of spreads in the MBS market and in response to the Company's rapidly changing liquidity needs, the Company decided to sell its portfolio of performing home equity loans aggregating approximately $1.4 billion. The Company also decided to negotiate the termination of a commitment to purchase approximately $260.0 million of home equity loans. As of December 31, 1998, a $19.4 million retained interest (of which $15.0 million was collected subsequent to December 31, 1998) was carried on the Company's balance sheet representing the Company's interest in a subsequent securitization or sale of the home equity loans sold and also represents the Company's remaining maximum exposure related to the home equity loan sale.

Operating expenses for the year ended December 31, 1998 primarily consisted of $99.2 million in interest expense, $55.0 million in

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personnel expense, $37.4 million in other general and administrative expense and $21.7 million in provisions for loan losses. Operating expenses increased by $99.6 million from $120.2 million for the prior year period to $219.8 million for the year ended December 31, 1998. This increase primarily consisted of $45.3 million in interest expense related to higher average balances of warehouse debt supporting higher average balances of loans held for sale, $20.1 million in other general and administrative expenses due primarily to AMRESCO Residential Mortgage Corporation ("ARMC") expansion, $17.2 million in personnel expense and $14.1 million in provisions for investment and loan losses primarily related to delinquent loans.

Commercial Finance. Revenues for the year ended December 31, 1998 primarily consisted of $80.5 million of interest and other investment income and $38.6 million of gain on securitization and sale of loans and investments. The $70.8 million increase in revenues from $51.2 million for the prior year period to $122.0 million for the year ended December 31, 1998 relates primarily to a $50.1 million increase in interest and other investment income generated by higher average balances of small business and franchise loans held for sale held during 1998 and increased balances of retained interests. Gain on sale increased $22.8 million due primarily to the securitization and sale of approximately $375.8 million of small business and franchise loans by business lending (formerly known as commercial lending corporation) during 1998 as compared to $265.4 million of securitization and sales in 1997.

Operating expenses for the year ended December 31, 1998 primarily consisted of $38.7 million in interest expense, $17.6 million in personnel cost, $7.9 million in other general and administrative expenses and $5.8 million of provision for loan losses. The $43.4 million increase in expenses from $32.1 million for the prior year to $75.5 million for the year ended December 31, 1998 was due primarily to an increase of $25.4 million in interest expense related to the financing for increased levels of investments and loans held for sale from 1997, $9.4 million in personnel expense related to expanded operations and $3.8 million in other general and administrative expenses primarily related to expanded operations.

Residential Mortgage Banking. The residential mortgage banking line of business is comprised of the newly acquired operations of MIC. Revenues for the period from inception (August 11, 1998) through December 31, 1998 primarily consisted of $72.1 million of gain on sale of VA streamlined re-financed loans. Operating expenses of $41.8 million primarily consisted of $30.4 million in personnel expense (primarily commissions) and $6.7 million in other general and administrative expense.

Corporate, Other and Intercompany Eliminations. Operating loss for the year ended December 31, 1998 improved $4.1 million due primarily to a $7.4 million decrease in personnel costs related primarily to reduced incentive compensation accruals due to 1998 losses offset, in part, by a $3.5 million increase in interest expense related to the $330.2 million subordinated debt issuance in early 1998.

Income Taxes. As of December 31, 1998, the Company had a net federal income tax receivable due primarily from the 1998 net loss of which $34.8 million was received in January 1999 and $44.5 million was received in March 1999. In addition, as of December 31, 1998, the Company had a deferred tax asset for which the Company must have future taxable income to realize. Certain of these benefits begin to expire in 2002 and are subject to annual utilization limitations. Management believes that recorded net deferred tax assets will be realized in the normal course of business. The decrease in the 1998 effective tax rate to 32% from 39% in 1997 was due primarily to the 1998 losses primarily occurring in subsidiary entities which have more efficient tax structures.

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

The Company reported a 109% increase in revenues from $200.1 million to $418.3 million, an 82% increase in operating income from $50.5 million to $92.1 million and a 79% increase in net income from $31.3 million to $56.2 million compared to the prior year period. The increases were due primarily to additional contributions by home equity lending, commercial finance and commercial mortgage banking operations. Diluted weighted average common shares outstanding increased 15% due primarily to the late 1996 conversion of the Company's convertible subordinated debentures, the late 1996 public

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offering of the Company's common stock and the March 1997 purchase of AMRESCO Commercial Lending Corporation ("ACLC") with the Company's common stock. Diluted earnings per share increased 44% from $1.06 to $1.53.

Asset Management. Revenues for the year ended December 31, 1997 primarily consisted of $59.2 million in interest and other investment income, $24.9 million in asset management and resolution fees and $18.0 million of gains on sales of loans and investments. The $14.8 million increase in revenues from $88.8 million for 1996 to $103.6 million for the year ended December 31, 1997 was primarily comprised of a $16.7 million increase in gain on sale of loans and investments and an $8.4 million increase in interest and other investment income offset, in part, by a $9.3 million decrease in management and resolution fees. Gain on sale of loans and investments increased due primarily to the sales of asset-backed securities and sales of foreclosed real estate. Interest and other investment income increased due primarily to a significant increase in aggregate investments for the Company's own account since early 1996. Asset management and resolution fees decreased as a result of a shift in business away from primarily managing and investing in partnerships and joint ventures to investing in wholly-owned portfolios.

Operating expenses for the year ended December 31, 1997 primarily consisted of $22.6 million in interest expense, $17.4 million in personnel cost, $11.2 million in other general and administrative expenses and a $4.5 million provision for investment and loan losses. The $10.2 million increase in expenses from $47.5 million for the prior year to $57.7 million for the year ended December 31, 1997 was due primarily to a $7.3 million increase in interest expense related to the financing of increased levels of investments from early 1996, a $4.5 million provision on owned portfolios and special servicing receivables and a $2.5 million increase in other general and administrative expenses, offset, in part, by a $3.5 million decrease in personnel expenses resulting from a lower level of assets being managed.

Commercial Mortgage Banking. Revenues for the year ended December 31, 1997 primarily consisted of $64.5 million in origination, underwriting and servicing revenues, $19.2 million in interest and other investment income and $13.9 million in other revenue. The $42.9 million increase in revenues from $54.6 million for the prior year period to $97.5 million for the year ended December 31, 1997 relates to an increase of $24.4 million in mortgage banking and servicing revenues due primarily to transaction volume of $7.8 billion during 1997 compared to $3.8 billion for 1996. The other revenues primarily relate to income from an equity affiliate of $13.9 million for 1997 from AMRESCO Capital's 50% share in a joint venture which originated and securitized loans. Interest and other investment income increased $4.9 million due primarily to interest earned on loans held for sale and escrow deposits, both of which have increased significantly since early 1996.

Operating expenses for the year ended December 31, 1997 primarily consisted of $49.3 million in personnel expense, $12.4 million in other general and administrative expense, $3.2 million in interest expense and $3.2 million in intangible amortization. The $27.1 million increase in expenses from $43.2 million for the prior year to $70.3 million for the year ended December 31, 1997 was due primarily to an increase of $19.9 million in personnel expenses primarily related to commissions on increased originations and an increase of $4.5 million in other general and administrative expense due to expanded operations.

Home Equity Lending. Revenues for the year ended December 31, 1997 primarily consisted of $90.1 million in interest and other investment income and $69.6 million of gains on securitization and sale of home equity mortgage loans and related securities. The $109.5 million increase in revenues from $56.9 million for the prior year period to $166.4 million for the year ended December 31, 1997 primarily related to increased levels of loan originations, acquisitions and securitizations and the acquisition by ARMC of the assets and business of Quality Mortgage USA ("Quality"). The increase in revenues was primarily comprised of a $52.7 million increase in gain on the securitization and sale of home equity mortgage loans and a $50.3 million increase in interest and other investment income.

The increased gain on the securitization and sale of home equity mortgage loans was due primarily to the securitization and sale of approximately $3.0 billion of home equity mortgage loans during the

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year ended December 31, 1997, including approximately $142.0 million of home equity mortgage loans securitized on a pre-fund basis in December 1996, as compared to gains on approximately $1.7 billion of loans securitized and sold in 1996. In addition to greater loan volumes, the increase in gain on securitization and sale was attributable in part to the inclusion of loans in the 1997 securitizations originated by ARMC, which had a lower basis than loans purchased from third parties and thus resulted in larger gains. Interest and other investment income primarily consisted of interest earned on loans held for sale, which have increased significantly since early 1996, and retained interests in securitizations.

Operating expenses for the year ended December 31, 1997 primarily consisted of $53.9 million in interest expense, $37.9 million in personnel expense, $17.3 million in other general and administrative expense and $7.6 million of provisions for investment and loan losses. Operating expenses increased by $90.7 million from $29.5 million for the prior year period to $120.2 million for the year ended December 31, 1997. This increase primarily consisted of $35.4 million in interest expense, $31.5 million in personnel expense, $13.5 million in other general and administrative expenses and $7.6 million in provisions for investment and loan losses. Interest expense primarily related to borrowings under warehouse loans payable which funded the origination, acquisition and warehousing of mortgage loans held for sale. Personnel and other general and administrative costs increased significantly from the prior year period due primarily to the increased operations of the home equity origination business through ARMC. The provision for loan losses related primarily to delinquent loans the Company elected to repurchase from the securitization trustee in certain of the Company's securitizations.

Commercial Finance. Revenues for the year ended December 31, 1997 primarily consisted of $30.4 million of interest and other investment income and $15.8 million of gain on securitization and sale of loans and investments. The $48.3 million increase in revenues from $2.9 million for the prior year period to $51.2 million for the year ended December 31, 1997 relates primarily to the acquisition of ACLC in March 1997 and increased lending activity. Interest and other investment income increased $27.6 million due primarily to interest earned on loans and securities retained in securitizations both of which have increased significantly since early 1996. The $15.8 million gain primarily relates to gain on securitization and sale of approximately $266.0 million of franchise loans in 1997 by ACLC.

Operating expenses for the year ended December 31, 1997 primarily consisted of $13.2 million in interest expense, $8.2 million in personnel cost, $4.6 million of provision for loan losses and $4.2 million in other general and administrative expenses. The $29.8 million increase in expenses from $2.3 million for the prior year to $32.1 million for the year ended December 31, 1997 was due primarily to an increase of $12.3 million in interest expense related to the financing for increased levels of investments from 1996, $7.9 million in personnel expense related to expanded operations, $4.6 million of additional provision for loan losses and $3.1 million in other general and administrative expenses primarily related to expanded operations.

Corporate, Other and Intercompany Eliminations. Operating loss for the year ended December 31, 1997 increased $15.9 million due primarily to increases in personnel costs and other overhead related to expanded operations. The rapid growth of the home equity lending, commercial mortgage banking and commercial finance operations have necessitated the hiring of additional personnel and the related development of corporate infrastructure.

Income Taxes. The increase in the 1997 effective tax rate to 39% from 38% in 1996 was due primarily to the amortization of the intangible asset recorded related to the ACLC acquisition, which is not deductible for tax purposes.

Liquidity and Funding

Liquidity is a measure of a company's ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund investment and lending activities and for general business purposes. Cash for investing, originating and underwriting loans, general operating expenses and business acquisitions is primarily obtained through cash flow from operations and credit facilities, including advances on the corporate and portfolio credit lines, mortgage warehouse lines, non-recourse debt and other financing sources.

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The Company has significant ongoing liquidity needs to support its existing business and continued growth. The Company's liquidity is actively managed on a daily basis and the Company's financial status, including its liquidity, is reviewed periodically by the Board of Directors. This process is intended to ensure the maintenance of sufficient funds to meet the needs of the Company.

Cash and cash equivalents totaled $66.4 million and $25.9 million at December 31, 1998 and 1997, respectively. Cash flows from operating activities plus principal cash collections on loans, asset portfolios and asset-backed securities totaled $388.8 million for the year ended December 31, 1998 compared to $196.9 million for 1997. The increase in cash flows from these activities resulted primarily from collections on loans and asset portfolios. The following is a summary of certain cash flow data (dollars in thousands):

	Year Ended December 31, 1998	Year Ended December 31, 1997
Net cash used in operating activities	$ (284,566)	$ (103,952)
Net cash used in investing activities	(432,381)	(347,170)
Net cash provided by financing activities	757,503	447,942
Other financial measures:		
Cash flow from operations and collections on loans, asset portfolios and asset-backed securities.	388,832	196,904
Cash provided by new capital and borrowings, net (excluding warehouse loans payable)	768,732	441,994
Cash used for purchase of asset portfolios and asset-backed securities and originations of loans	(1,020,439)	(675,618)
Ratio of total debt to equity	3.7:1	5.2:1
Ratio of core debt to equity (1)	2.7:1	2.2:1
EBITDA (2)	156,519	208,608
Interest coverage ratio (3)	0.7x	2.0x

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(1) Excludes indebtedness under warehouse lines of credit.
(2) EBITDA is calculated as operating income before interest, income taxes, depreciation and amortization. The Company has included information concerning EBITDA because EBITDA is one measure of an issuer's historical ability to service its indebtedness. EBITDA should not be considered as an alternative to, or more meaningful than, net income as an indicator of the Company's operating performance or to cash flows as a measure of liquidity.
(3) Interest coverage ratio means the rolling twelve month ratio of earnings before interest, taxes, depreciation and amortization to interest expense.

The following table shows the components of the Company's capital structure, including certain short-term debt, as of December 31, 1998 and 1997 (dollars in millions):

	1998 Dollars	1998 % of Total	1997 Dollars	1997 % of Total
Shareholders' equity	$ 585.4	21%	$ 408.5	16%
Senior notes	57.5	2	57.5	2
Senior subordinated notes	580.2	21	250.0	10
Mortgage warehouse loans	587.4	21	1,216.8	49
Notes payable	957.9	35	583.4	23
Total	$2,768.4	100%	$2,516.2	100%

Total assets increased $0.3 billion to $2.9 billion at December 31, 1998 from $2.6 billion at December 31, 1997. This increase was due primarily to increased loans and asset portfolios, retained interests primarily created in securitization, and intangible assets related to 1998 acquisitions offset, in part, by reduced balances of loans held for sale due primarily to the sales of home equity and commercial conduit loans.

Senior Credit Facility

Effective August 12, 1998 the Company entered into a Credit Agreement (the "Credit Agreement") with a syndicate of lenders led by NationsBank, N.A., as administrative agent and Credit Suisse First Boston, as syndication agent, replacing the Third Amended and Restated Loan Agreement (as modified and amended) dated as of September 30, 1997. The Credit Agreement provides for a revolving loan commitment with short and long term commitments of $167.5 million and $502.5

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million, respectively, and a term commitment of $67.5 million. The short and long term revolving facilities terminate August 11, 1999 and August 12, 2001, respectively, and the term loan commitment terminates August 12, 2003. As of December 31, 1998, $640.2 million was outstanding under the Credit Agreement. The Company currently anticipates it will have sufficient funds to repay the entire $167.5 million revolving loan commitment that matures August 11, 1999, however, some portion of the banks that are parties to the Credit Agreement may not call for repayment of the entire amount as of that date. On February 28, 1999, the Credit Agreement was amended to replace a waiver which, among other things, adjusted the ratios to allow for the loss incurred in 1998.

Commercial Mortgage Banking Facilities

During the year ended December 31, 1998, the Company financed its commercial mortgage lending operations with warehouse lines of credit with aggregate credit limits of $1.6 billion. As a result of the restructuring of the commercial mortgage banking operations discussed above, the Company's financing requirements and financing sources have been significantly reduced.

As of December 31, 1998, $21.9 million was outstanding under a Master Loan and Security Agreement with Morgan Stanley Mortgage Capital Inc. which was subsequently paid off. The Master Loan and Security Agreement was terminated on January 29, 1999.

The First Amended and Restated Promissory Note ("Promissory Note") dated October 16, 1998, between a wholly-owned subsidiary of the Company and Residential Funding Corporation provides financing in an amount not to exceed $325.0 million for the purpose of financing the origination and acquisition of commercial mortgage loans, principally loans originated in the Fannie Mae program. The Promissory Note replaced a prior financing arrangement with Residential Funding Corporation. At December 31, 1998, $289.2 million was outstanding under such financing arrangement.

Home Equity Lending Facilities

During the year ended December 31, 1998, the Company financed its home equity lending operations with warehouse lines of credit with aggregate credit limits of $2.9 billion. As a result of the restructuring of the home equity lending business described above, the Company's financing requirements and financing sources have been significantly reduced.

The Interim Warehouse and Security Agreement (the "Security Agreement") dated February 27, 1998, between a wholly-owned subsidiary of the Company and Prudential provides financing in an amount not to exceed $250.0 million for the origination and purchase of certain home equity loans and financing for certain retained interests. As of December 31, 1998, $128.0 million was outstanding under the Security Agreement.

In October 1998, a wholly-owned subsidiary of the Company entered into an agreement with Lehman Brothers ("Lehman") to finance certain delinquent home equity loans. As of December 31, 1998, $8.1 million was outstanding under the agreement.

Commercial Finance Facilities

The Interim Warehouse and Security Agreement (the "Commercial Concepts Agreement") dated February 26, 1998, between a wholly-owned subsidiary of the Company and Prudential Securities Credit Corporation ("Prudential") provides financing in an amount not to exceed $200.0 million for the origination and purchase of small business loans. At December 31, 1998, $32.2 million was outstanding under the Commercial Concepts Agreement.

The Interim Warehouse and Security Agreement (the "Franchise Agreement") dated March 17, 1998, between a wholly-owned subsidiary of the Company and Prudential provides financing in an amount not to exceed $150.0 million for the origination and purchase of certain franchise and construction loans. At December 31, 1998, $29.1 million was outstanding under the Franchise Agreement.

The Loan Agreement ("Loan Agreement") dated August 31, 1998, between a wholly-owned subsidiary of the Company and Salomon Brothers Realty Corporation provides financing in an amount not to exceed $200.0 million to provide financing for the origination of commercial

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mortgage loans secured by certain real estate properties originated or acquired. At December 31, 1998, $23.2 million was outstanding under the Loan Agreement.

The Loan Agreement ("Transamerica Loan Agreement"), dated December 18, 1998 between a wholly-owned subsidiary of the Company and Transamerica Business Credit Corporation provides a working capital facility in the maximum aggregate principal amount of up to $75.0 million for the purpose of funding new Small Business Administration ("SBA") loans. At December 31, 1998, $55.7 million was outstanding under the Transamerica Loan Agreement.

General

Current liquidity, unused revolver availability and cash available, as of March 22, 1999, was approximately $114.4 million. The primary sources of liquidity currently include the Credit Agreement and, to the extent described above, the Warehouse Facilities, and internally generated funds. In addition to the loan sales and other matters described above, the Company expects to manage its liquidity from cash flows generated from its existing operations (primarily residential mortgage banking cash flows), and returns of and on investments in the ordinary course of business. The Company received $34.8 million in tax refunds in January 1999 for 1998 tax deposits and $44.5 million in March 1999 for 1997 and 1996 taxes due to 1998 losses. In addition, the Company is seeking to obtain third party financing for certain assets which, if successful, would result in additional capacity under the Credit Agreement, subject to borrowing base limitations which may impact additional capacity created by such transactions. The Company believes that it has sufficient liquidity to meet its obligations, including the potential repayment of the entire $167.5 million short term facility under the Credit Agreement due in August 1999, the $57.5 million of senior notes due July 1999 and to fund its operations at current levels.

The Credit Agreement, the Warehouse Facilities and the indentures under which the senior notes and senior subordinated notes are issued contain certain financial covenants relating to among other things, interest coverage, leverage and tangible net worth. If the Company experiences additional losses it may be in default under the financial covenants. Any such default could materially impact the Company's financial condition and prospects. The Company does not anticipate that it will be in default under any of its credit agreements and facilities in the foreseeable future. Although the Company is in compliance with all its respective debt agreements, these debt agreements contain restrictions on the incurrence of additional debt. These restrictions currently preclude the incurrence of additional debt, other than under the Credit Agreement (or any replacement or successor thereto) and pursuant to warehouse lines of credit, asset-based financings and other similar arrangements designed to support its various lines of business.

The Company has historically accessed the capital markets as an important part of its capital raising activities, including to raise funds in debt and equity offerings, to finance the acquisition of assets and the origination and accumulation of loans, and to securitize and sell mortgage loans originated by its different business lines. The Company anticipates that its access to the capital markets will be significantly limited for the foreseeable future and that other sources of third party financing will also be limited.

Other Matters

On July 16, 1998, the Company purchased the assets of Independence Funding Co. L.L.P. ("IFC") and TeleCapital L.P. ("TeleCapital") for approximately 1.3 million shares of the Company's common stock and cash of $44.0 million. IFC's primary line of business is providing long term financing to small businesses and TeleCapital's primary line of business is providing financing to the pay phone industry.

On August 11, 1998, the Company acquired MIC, a privately held specialized producer of VA streamlined re-financed loans, by merging a wholly-owned subsidiary of the Company with MIC. The merger agreement provided for an acquisition price of approximately 1.8 million shares of the Company's common stock and $2.6 million in cash. Additionally, the Company will pay an annual earnout over a three-year period, the total of which will not exceed $105.0 million, comprised of approximately 82% in the Company's common stock and 18% cash.

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In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires an entity to 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. This statement is effective for all fiscal quarters for fiscal years beginning after June 15, 1999. The Company has not yet determined the impact on the Consolidated Financial Statements upon adoption of this standard.

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise," which establishes accounting and reporting standards for certain activities of mortgage banking enterprises and other enterprises that conduct operations that are substantially similar to the primary operations of a mortgage banking enterprise. SFAS No. 134 requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities based upon its ability and intent to sell or hold those investments. This statement is effective for the first fiscal quarter beginning after December 31, 1998 with early adoption permitted. The Company will apply the new rules of SFAS 134 for its fiscal year beginning January 1, 1999. The Company believes the adoption of SFAS 134 will not have a material impact on the Company's results of operations or financial position.

Year 2000

General

Many of the world's computers, software programs and other equipment using microprocessors or embedded chips currently have date fields that use two digits rather than four digits to define the applicable year. These computers, programs and chips may be unable to properly interpret dates beyond the year 1999; for example, computer software that has date sensitive programming using a two-digit format may recognize a date using "00" as the year 1900 rather than the year 2000. Such errors could potentially result in a system failure or miscalculation causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in similar normal business activities, which, in turn, could lead to disruptions in the Company's operations or performance.

The Company's assessments of the cost and timeliness of completion of Year 2000 modifications set forth below are based on management's best estimates, which were derived using numerous assumptions relating to future events, including, without limitation, the continued availability of certain internal and external resources and third party readiness plans. Furthermore, as the Company's Year 2000 initiative (described below) progresses, the Company continues to revise its estimates of the likely problems and costs associated with the Year 2000 problem and to adapt its contingency plan. However, there can be no assurance that any estimate or assumption will prove to be accurate.

The Company's Year 2000 Initiative

The Company is conducting a comprehensive Year 2000 initiative with respect to its internal business-critical systems. This initiative encompasses information technology ("IT") systems and applications, as well as non-IT systems and equipment with embedded technology, such as fax machines and telephone systems, which may be impacted by the Year 2000 problem. Business-critical systems encompass internal accounting systems, including general ledger, accounts payable and financial reporting applications; cash management systems; loan servicing systems; and decision support systems; as well as the underlying technology required to support the software. The initiative includes assessing, remediating or replacing, testing and

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upgrading the Company's business-critical IT systems with the assistance of a consulting firm that specializes in Year 2000 readiness. Based upon a review of the completed and planned stages of the initiative, and the testing done to date, the Company does not anticipate any material difficulties in achieving Year 2000 readiness with respect to its internal business-critical systems, and the Company anticipates that Year 2000 readiness with respect to virtually all its internal business-critical systems will be achieved by March 31, 1999.

In addition to its own internal IT systems and non-IT systems, the Company may be at risk from Year 2000 failures caused by or occurring to third parties. These third parties can be classified into two groups. The first group includes borrowers, significant business partners, lenders, vendors and other service providers with whom the Company has a direct contractual relationship. The second group, while encompassing certain members of the first group, is comprised of third parties providing services or functions to large segments of society, both domestically and internationally such as airlines, utilities and national stock exchanges.

As is the case with most other companies, the actions the Company can take to avoid any adverse effects from the failure of companies, particularly those in the second group, to become Year 2000 ready is extremely limited. However, the Company is in the process of communicating with those companies that have significant business relationships with the Company, particularly those in the first group, to determine their Year 2000 readiness status and the extent to which the Company could be affected by any of their Year 2000 readiness issues. In connection with this process, the Company is seeking to obtain written representations and other independent confirmations of Year 2000 readiness from the third parties with whom the Company has material contracts. Responses from all third parties having material contracts with the Company have not been received. In addition to contacting these third parties, where there are direct interfaces between the Company's systems and the systems of these third parties in the first group, the Company plans to conduct testing in the second quarter of 1999 in conformance with the guidelines of the Federal Financial Institutions Examination Council. Based on responses received and testing to date, it is not currently anticipated that the Company will be materially affected by any third party Year 2000 readiness issues.

For all business-critical systems interfaces, readiness is scheduled to be achieved by March 31, 1999. Significant third party service providers that have not completed their Year 2000 initiatives by March 31, 1999 are scheduled to be replaced with comparable firms that are believed to be compliant. The Company anticipates that this portion of its Year 2000 initiative will be completed within the scheduled time periods.

There can be no assurance that the systems of the Company or those of third parties will be timely converted. Furthermore, there can be no assurance that a failure to convert by another company, or a conversion that is not compatible with the Company's systems or those of other companies on which the Company's systems rely, would not have a material adverse effect on the Company.

The Company does not anticipate that it will incur material expenditures in connection with any modifications necessary to achieve Year 2000 readiness. The Company estimates that it has incurred approximately $750,000 of costs related to its Year 2000 initiative through December 31, 1998, and the Company anticipates that it will incur approximately $500,000 of costs in the future with respect to the initiative. These cost estimates do not include costs associated with internal resources assigned to the initiative.

Potential Risks

In addition to the Company's internal systems and the systems and embedded technology of third parties with whom the Company does business, there is a general uncertainty regarding the overall success of global remediation efforts relating to the Year 2000 problem, including those efforts of providers of services to large segments of society, as described above in the second group. Due to the interrelationships on a global scale that may be impacted by the Year 2000 problem, there could be short-term disruptions in the capital or real estate markets or longer-term disruptions that would affect the overall economy.

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Due to the general uncertainty with respect to how this issue will affect businesses and governments, it is not possible to list all potential problems or risks associated with the Year 2000 problem. However, some examples of problems or risks to the Company that could result from the failure by third parties to adequately deal with the Year 2000 problem include:

- in the case of lenders, the potential for liquidity stress due to disruptions in funding flows;

- in the case of exchanges and clearing agents, the potential for funding disruptions and settlement failures; and

- in the case of vendors or providers, service failures or interruptions, such as failures of power, telecommunications and the embedded technology of building systems (such as HVAC, sprinkler and fire suppression, elevators, alarm monitoring and security, and building and parking garage access).

With respect to the Company's loan portfolios, risks due to the potential failure of third parties to be ready to deal with the Year 2000 problem include:

- potential borrower defaults resulting from computer failures of retail systems of major tenants in retail commercial real estate properties such as shopping malls and strip shopping centers;

- potential borrower defaults resulting from increased expenses or legal claims related to failures of embedded technology in building systems, such as HVAC, sprinkler and fire suppression, elevators, alarm monitoring and security, and building and parking garage access; and

- delays in reaching projected occupancy levels due to construction delays, interruptions in service or other market factors.

These risks are also applicable to the Company's portfolios of MBS, as these securities are dependent upon the pool of mortgage loans underlying them. If the investors in these types of securities demand higher returns in recognition of these potential risks, the market value of any future MBS portfolios of the Company also could be adversely affected.

Other problems that could result from the failure of the Company or third parties to achieve Year 2000 readiness include impairment of the Company's ability to report to investors and owners with respect to portfolio performance and collect and remit payments, including those with respect to return on investments, taxes and insurance. Furthermore, the Company's loan servicing operations rely on computers to process and manage loans. These operations are of such a volume and nature that manual processing would be time consuming and expensive. Therefore, a failure of the Company's own systems or the systems provided by third parties and used by the Company to be timely compliant could have a material adverse effect on the Company's loan servicing operations.

The Company believes that the risks most likely to affect the Company adversely relate to the failure of third parties, including its borrowers and sources of capital, to achieve Year 2000 readiness. If its borrowers' systems fail, the result could be a delay in making payments to the Company or the complete business failure of such borrowers. The failure, although believed to be unlikely, of the Company's sources of capital to achieve Year 2000 readiness could result in the Company being unable to obtain the funds necessary to continue its normal business operations.

Some of the risks associated with the Year 2000 problem may be mitigated through insurance maintained or purchased by the Company, its business partners, borrowers and vendors. However, the scope of insurance coverage in addressing these potential issues under existing policies has yet to be tested, and the economic impact on the solvency of the insurers has not been explored. Therefore, no assurance can be given that insurance coverage will be available or, if it is available, that it will be available on a cost-effective basis or that it will cover all or a significant portion of any potential loss.

Business Continuity/Disaster Recovery Plan

The Company currently has a business continuity/disaster recovery plan that includes business resumption processes that do not rely on

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computer systems and the maintenance of hard copy files, where appropriate. The business continuity/disaster recovery plan is monitored and updated as potential Year 2000 readiness issues of the Company and third parties are specifically identified. Due to the inability to predict all of the potential problems that may arise in connection with the Year 2000 problem, there can be no assurance that all contingencies will be adequately addressed by such plan.

Private Litigation Securities Reform Act of 1995

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The factors that could cause actual results to differ materially include the following: industry conditions and competition, interest rates, business mix, availability of additional financing, and the risks described from time to time in the Company's reports to the Securities and Exchange Commission.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and currency exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management procedures extends beyond derivatives to include all market risk sensitive financial instruments.

The following is a discussion of the Company's primary market risk exposures as of December 31, 1998, including a discussion of how those exposures are managed.

Interest Rate Risk

The Company is subject to interest rate risk due to the Company's balance sheet being primarily comprised of loans and interest bearing investments primarily financed by LIBOR based notes payable and warehouse loans payable. The Company manages this risk by striving to balance its origination and mortgage banking activities with its asset management and servicing operations which are generally counter cyclical in nature. In addition, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to hedge against changes in interest rates. The Company may reduce its exposure to fluctuations in interest rates by creating offsetting positions through the use of derivative financial instruments. Derivatives are used to lower funding costs, to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities. The Company does not use derivative financial instruments for trading or speculative purposes, nor is the Company party to highly leveraged derivatives. These financial instruments include interest rate cap agreements, put options and forward and futures contracts. The instruments involve, to varying degrees, elements of interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Company controls the risk of its hedging agreements, interest rate cap agreements and forward and futures contracts through approvals, limits and monitoring procedures.

The Company purchases interest rate cap agreements to reduce the impact of changes in interest rates on its floating rate debt. The Company enters into these agreements to change the fixed/variable interest rate mix of the debt portfolio to reduce the Company's aggregate risk to movements in interest rates. Accordingly, the Company enters into agreements to effectively convert variable-rate debt to fixed-rate debt to reduce the Company's risk of incurring higher interest costs due to rising interest rates. The cap agreements entitle the Company to receive from the counterparties the amounts, if any, by which an interest rate index exceeds agreed-upon thresholds. The potential loss in fair value related to such cap agreements resulting from a 10% adverse change in interest rates is not material.

Futures and forward contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Initial margin requirements are met in cash or other instruments. Futures contracts have little credit risk because futures exchanges

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are the counterparties. Forward agreements and interest rate swaps and caps are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

Interest rate sensitivity analyses are used to measure the Company's interest rate risk related to its trading and other than trading portfolios by computing hypothetical changes in fair values of interest rate sensitive assets, liabilities and off balance sheet items in the event of a hypothetical changes in interest rates. The following are the Company's interest rate sensitivity analyses as of December 31, 1998 (dollars in millions):

Retained Interests in Securitization (trading):

Change in Interest Rates	Fair Value	Hypothetical Change ($)	Hypothetical Change (%)
10%	$557.3	$18.3	3.4%
0	539.0	-	-
(10)%	530.5	(8.5)	(1.6)

A hypothetical increase in interest rates is projected to decrease loan pre-payments increasing the fair value of the retained interests. This increase is projected to more than offset a decrease in fair value of the retained interests caused by higher market interest rates.

Other than Trading:

Change in Interest Rates	Fair Value	Hypothetical Change	Hypothetical Change
10%	$707.2	$1.3	0.2%
0	705.9	-	-
(10)%	702.3	(3.6)	0.5

The other than trading category includes loans held for sale, loans and asset portfolios, asset backed securities, derivative positions, senior notes, senior subordinated notes and the amount outstanding under the Company's Credit Agreement to the extent the fair value could be affected by a widening of spreads. In an increasing interest rate environment, the Company projects the fair value of its debt obligations to decrease offset, in part, by a fair value reduction in its asset and derivative portfolio.

Any market interest rate change would adjust the Company's projected cash flows from its variable rate assets and liabilities. Such changes in cash flows are not reflected in the above analysis as the fair values of variable assets and liabilities would not materially be affected by a 10% change in interest rates. As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in interest rates. Changes in interest rates related to certain types of assets and liabilities may fluctuate in advance of changes in market interest rates while changes in interest rates related to other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as variable rate loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Additionally, changes in market interest rates may increase or decrease due to pre-payments and defaults influenced by changes in market interest rates affecting the valuation of certain assets. Accordingly, the data presented in the above table should not be relied upon as indicative of actual results in the event of changes in interest rates.

Foreign Exchange Risk

Foreign exchange risk arises from the possibility that changes in foreign exchange rates will impact the value of financial instruments. The Company is subject to foreign exchange risk to the extent its income bearing assets exceeds its related foreign denominated debt. At December 31, 1998, the Company had no derivative contracts in place to hedge against foreign exchange rate exposure. The following table summarizes the hypothetical impact to the Company's financial position due to changes in foreign currency exchange rates (dollars in millions):

Change in Foreign Exchange Rates per Dollar	Fair Value	Hypothetical Change	Hypothetical Change

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10%	$70.9	$ (5.1)	(6.7)%
0	76.0	-	-
(10)%	86.6	10.6	13.9%

Other Market Risks

As with any entity's investment or asset portfolio, the Company is subject to the risk that certain unpredictable conditions can exist which combine to have the effect of limiting the Company's ability to liquidate its assets through sale or securitization. As was the case in late 1998 when unprecedented market conditions caused a widening of interest rate spreads resulting in losses to the Company and substantial requirements on the Company's liquidity position, certain events, however remote a possibility, can again exist reducing the Company's ability to liquidate certain assets. The Company believes its exposure to this liquidity risk is remote and would not be present under a scenario of a 10% change in interest rates.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Statements on Page F-1 of this Annual Report on Form 10-K.

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 required by this Item is set forth under the caption "Management" in the Company's definitive Proxy Statement (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item is set forth under the caption "Executive Compensation" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(1) Financial Statements

See Index to Financial Statements on page F-1 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

Financial statement schedules under the applicable rules and regulations of the Securities and Exchange Commission have been omitted as the schedules are not applicable or the information required thereby is included in the Company's consolidated financial

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statements or notes thereto.

(3) Exhibits

The following instruments are included as exhibits to the report. Exhibits incorporated by reference are so indicated.

Exhibit Number	Description of Exhibit
3.(a)	Restated Certificate of Incorporation. (1)
(b)	Amended and Restated Bylaws effective as of February 25, 1997 filed as exhibit 3 (b) to Registrant's Form 10-K for the fiscal year ended December 31, 1996, which is incorporated herein by reference.
4.(a)	See Exhibits 3(a) and (b).
(b)	Indenture, dated as of January 15, 1996, between the Registrant and Bank One, Columbus, N.A., as trustee, filed as Exhibit 4.1 to the Registrant's Form 8-K dated February 2, 1996, which exhibit is incorporated herein by reference.
(c)	Indenture, dated as of March 1, 1997, between the Company and Bank One, Columbus, N.A., as trustee, filed as Exhibit 4.1 to the Registrant's Form 8-K dated March 12, 1997, which exhibit is incorporated herein by reference.
(d)	Officers' Certificate and Company Order dated as of March 12, 1997, establishing the terms of the Company's Senior Subordinated Notes, Series 1997-A due 2004, filed as Exhibit 4.2 to the Registrant's Form 8-K dated March 12, 1997, which exhibit is incorporated herein by reference.
(e)	Officers' Certificate and Company Order dated as of February 23, 1998, establishing the terms of the Company's Senior Subordinated Notes, Series 1998-A due 2005. (1)
(f)	Specimen Common Stock Certificate, filed as Exhibit 4.4 to the Company's Registration Statement on Form S-3 (No. 33-63683), which exhibit is incorporated herein by reference.
10.(a)	Form of Indemnification Agreement together with a list of all officers and directors who have signed such agreement, filed as Exhibit 10(g) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1987, which exhibit is incorporated herein by reference.
(b)	Form of Indemnification Agreement dated as of August 24, 1993, together with a list of all officers and directors who have signed such agreement, filed as Exhibit 10(g) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 31, 1993, which exhibit is incorporated herein by reference.
(c)	Fifth Amended and Restated Incentive Stock Option Plan dated as of November 20, 1990, filed as Exhibit 10(h) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, which exhibit is incorporated herein by references.(2)
(d)	Fourth Amended and Restated Stock Option Plan dated as of November 20, 1991, filed as Exhibit 10(i) to the Registrants Annual Report on Form 10-K for the year ended December 31, 1991, which exhibit is incorporated herein by reference.(2)
(e)	Stock Option Agreement, dated as of April 17, 1990, between the Registrant and Bruce W. Schnitzer, and Termination of Warrant between Mr. Schnitzer and the Registrant, filed as Exhibit 10(s) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990, which exhibit is incorporated herein by reference.(2)
(f)	Promissory Note dated October 31, 1990 issued by James P. Cotton, Jr. to the Registrant, filed as Exhibit 10(s) to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990, which exhibit is incorporated herein by reference.
(g)	Promissory Note dated October 31, 1990 issued by Gerald E. Eickhoff to the Registrant, filed as Exhibit 10(w) to the Registrant's Annual Report Form 10-K for the year ended October 31, 1990, which exhibit is incorporated herein by reference.
(h)	Registrant's 1993 Key Individual Stock Option Plan filed as Exhibit 10(z) to the Registration Statement of Registrant on Form S-4 under the Securities Act of 1993 (File No. 33-72732), which exhibit is incorporated herein by reference.(2)
(i)	Indemnification Agreement, dated March 30, 1993, between AMRESCO Holdings, Inc. and Richard L. Cravey, filed as Exhibit 10(ab) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, which exhibit is incorporated herein by reference.

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(j) Indemnification Agreement, dated March 30, 1993, between AMRESCO Holdings, and William S. Green, filed as Exhibit 10(ac) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, which exhibit is incorporated herein by reference.

(k) The Registrant's Retirement Savings and Profit Sharing Plan and Trust filed as Exhibit 10(ag) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, which exhibit is incorporated herein by reference.(2)

(l) The Registrant's Retention Bonus Plan, as amended, filed as Exhibit 10(ah) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 and as Exhibit 10(y) to the Registration Statement of the Registrant on Form S-4 under the Securities Act of 1993 (File No. 33-72321), which exhibits are incorporated herein by reference.(2)

(m) The Registrant's Severance Pay Plan filed as Exhibit 10(ai) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, which exhibit is incorporated herein by reference.(2)

(n) The Registrant's Thrift Restoration Plan filed as Exhibit 10(ak) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, which exhibit is incorporated herein by reference.(2)

(o) Employment Agreement, dated as of May 31, 1994, between Registrant and Robert H. Lutz, Jr., filed as Exhibit 10(y) to the Registrant's Form 10-K for the fiscal year ended December 31, 1994, which exhibit is incorporated herein by reference.(2)

(p) Amendment to Stock Option Agreement, dated as of April 1, 1995, between the Registrant and Bruce W. Schnitzer filed as Exhibit 10(an) to the Registrant's Form 10-K for the fiscal year ended December 31, 1995, which exhibit is incorporated herein by reference. (2)

(q) Office Lease, dated as of February 9, 1996, between K-P Plaza Limited Partnership and the Registrant filed as Exhibit 10(ao) to the Registrant's Form 10-K for the fiscal year ended December 31, 1995, which exhibit is incorporated herein by reference.

(r) First Amendment to Office Lease dated July 17, 1996.

(s) Second Amendment to Lease Agreement dated May 27, 1997.

(t) Third Amendment to Lease Agreement dated September 22, 1997.

(u) Lease Expansion and Fourth Amendment to Lease Agreement dated January 6, 1998.

(v) Form of Severance Agreement, dated as of May 29, 1996, with Robert H Lutz, Jr., Robert L. Adair, Barry L. Edwards, L. Keith Blackwell, Ronald B. Kirkland and Ronald Castleman filed as exhibit 10.(x) to the registrants Form 10-K for the fiscal year ended December 31, 1996, which is incorporated herein by reference. (2)

(w) Form of Letter Agreement, dated as of March 20, 1997, with Harold E. Holliday, Jr. and Scott J. Reading filed as exhibit 10.(y) to the registrants Form 10-K for the fiscal year ended December 31, 1996, which is incorporated herein by reference. (2)

(x) Incentive Compensation Program, dated August 15, 1996, for certain employees of AMRESCO Residential Credit Corporation filed as exhibit 10.(z) to the registrants Form 10-K for the fiscal year ended December 31, 1996, which is incorporated herein by reference. (2)

(y) AMRESCO, INC. 1997 Stock Option Plan filed as exhibit 10.(ac) to the registrants Form 10-K for the fiscal year ended December 31, 1996, which is incorporated herein by reference. (2)

(z) AMRESCO, INC. 1995 Stock Option and Award Plan, as amended and restated. (2)

(aa) AMRESCO, INC. 1998 Stock Option and Award Plan filed as Exhibit 10 to the registrants' Form 10-Q for the fiscal quarter ended June 30, 1998, which is incorporated herein by reference. (2)

(ab) Credit Agreement entered into as of August 12, 1998 among AMRESCO, INC., as borrower, NationsBank, N.A. as administrative agent and Credit Suisse First Boston as syndication agent for the "Lenders" filed as Exhibit 10 to the registrant's Form 10-Q for the fiscal quarter ended September 30, 1998, which is incorporated herein by reference.

(ac) The First Modification of Credit Agreement entered into as of September 17, 1998 among AMRESCO, INC., as borrower, and NationsBank, N.A. as administrative agent for the "Lenders." (1)

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(ad) The Second Modification of Credit Agreement entered into as of November 30, 1998, among AMRESCO, INC., as borrower, and NationsBank, N.A. as administrative agent for the "Lenders." (1)

(ae) The Third Modification of Credit Agreement and Consent entered into as of February 28, 1999 among AMRESCO, INC., as borrower, and NationsBank, N.A. as administrative agent for the "Lenders." (1)

(af) Amendment No.1 to Rights Agreement, dated as of March 2, 1999, executed by and between AMRESCO, INC. and The Bank of New York, as Rights Agent (attached as Exhibit 1a to the Registrants Form 8-A [Amendment No.1] filed as of March 24, 1999.

11. Statement re: Computation of Per Share Earnings. (1)
21. Subsidiaries of the Registrant. (1)
23. Consent of Independent Auditors-Deloitte & Touche LLP (1)
27.(a) Financial Data Schedule- Fiscal year end 1998. (1)
(b) Financial Data Schedule- Fiscal year ends 1996, 1997 and Quarters 1, 2 and 3 of 1997. (1)
(c) Financial Data Schedule- Quarters 1, 2 and 3 of 1998. (1)

(1) Filed herewith.

(2) Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Report.

Reports on Form 8-K

The Registrant filed a Current Report on Form 8-K, dated October 12, 1998, reporting pursuant to Items 5 and 7 of such Form the completed sale of approximately $936 million of commercial mortgage loans, the completed sale of $1.0 billion of home equity loans and the entering into an agreement to sell approximately $400 million of additional home equity loans.

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 on the 25th day of March, 1999.

AMRESCO, INC.

By: /s/ L. Keith Blackwell
L. Keith Blackwell

Senior Vice President, General Counsel and Secretary

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 25th day of March, 1999:

Signature	Title
ROBERT H. LUTZ, JR. Robert H. Lutz, Jr.	Chairman of the Board and Chief Executive Officer
ROBERT L. ADAIR III Robert L. Adair III	Director, President and Chief Operating Officer
BARRY L. EDWARDS Barry L Edwards	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
JAMES P. COTTON, JR. James P. Cotton, Jr.	Director
RICHARD L. CRAVEY Richard L. Cravey	Director
GERALD E. EICKHOFF Gerald E. Eickhoff	Director
AMY J. JORGENSEN Amy J. Jorgensen	Director
__________________ Bruce W. Schnitzer	Director
SIDNEY E. HARRIS Sidney E. Harris	Director
RON B. KIRKLAND Ron B. Kirkland	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

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AMRESCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 1998 and 1997
(In thousands, except for share amounts)

	1998	1997
ASSETS		
Cash and cash equivalents	$ 66,422	$ 25,866
Loans held for sale, net	694,397	1,330,337
Loans and asset portfolios, net	943,119	648,694
Retained interests in securitizations - trading (at fair value)	538,977	294,062
Asset-backed securities - available for sale (at fair value)	141,181	107,677
Accounts receivable, net of reserves of $696 and $455	20,683	19,183
Income taxes receivable	65,937	
Deferred income taxes	30,755	28,324
Premises and equipment, net of accumulated depreciation of $16,769 and $10,641	23,223	10,147
Intangible assets, net of accumulated amortization of $34,470 and $20,038	262,815	113,841
Mortgage servicing rights, net of accumulated amortization of $3,872 and $191	49,387	3,394
Other assets	81,814	52,323
TOTAL ASSETS	$2,918,710	$2,633,848
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	$ 43,280	$ 22,821
Accrued employee compensation and benefits	28,420	33,609
Notes payable	957,871	583,442
Warehouse loans payable	587,426	1,216,796
Senior notes	57,500	57,500
Senior subordinated notes	580,179	250,000
Income taxes payable		19,185
Other liabilities	78,627	41,995
TOTAL LIABILITIES	2,333,303	2,225,348
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY:		
Common stock, $0.05 par value, authorized 150,000,000 shares; 49,099,135 and 36,543,210 shares issued	2,456	1,827
Capital in excess of par	543,871	257,941
Unamortized stock compensation	(4,981)	(2,713)
Treasury stock, $0.05 par value, 1,057,953 and 24,339 shares	(17,363)	(160)
Accumulated other comprehensive income (loss)	(12,651)	8,359
Retained earnings	74,075	143,246
TOTAL SHAREHOLDERS' EQUITY	585,407	408,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,918,710	$2,633,848

See notes to consolidated financial statements.

AMRESCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 1998, 1997 and 1996
(In thousands, except per share data)

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	1998	1997	1996
REVENUES:			
Interest and other investment income	$ 397,817	$198,165	$103,639
Gain (loss) on sale of loans and investments, net	(7,230)	103,385	18,394
Mortgage banking and servicing fees	113,634	75,250	40,697
Asset management and resolution fees	17,714	24,948	34,300
Other revenues	4,869	16,525	3,037
Total revenues	526,804	418,273	200,067
EXPENSES:			
Personnel	227,117	146,018	78,864
Interest	232,497	102,063	36,763
Other general and administrative	113,534	45,883	21,903
Provisions for loan and asset portfolio losses	29,634	17,764	3,195
Depreciation and amortization	25,855	14,448	8,876
Total expenses	628,637	326,176	149,601
Income (loss) before income taxes	(101,833)	92,097	50,466
Income tax expense (benefit)	(32,662)	35,873	19,134
NET INCOME (LOSS)	$ (69,171)	$ 56,224	$ 31,332
Earnings (loss) per share:			
Basic	$(1.61)	$1.59	$1.16
Diluted	(1.61)	1.53	1.06
Weighted average number of common shares outstanding - diluted	42,846	36,663	31,774

See notes to consolidated financial statements.

AMRESCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1998, 1997 and 1996
(In thousands)

<TABLE>
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	Common Stock $0.05 par value Number of Shares	Amount	Capital in excess of Par	Unamort. Stock Comp.	Treasury Stock	Other Comprehen. Income(Loss)	Retained Earnings	Compr. Income (Loss)	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
JANUARY 1, 1996	26,689	$1,334	$106,054	$(2,238)	$(160)	$ 114	$ 55,690		160,794
Comprehensive income:									
Net income							31,332	$31,332	
Other comprehensive income, net of tax:									
Unrealized gains on securities						479		479	
Foreign currency translation adjustments						(344)		(344)	
Other comprehensive income								135	
Comprehensive income								$31,467	31,467
Common stock offering	2,992	150	60,740						60,890
Debt conversion to common stock	3,600	180	42,879						43,059
Exercise of stock options (including tax benefit)	467	23	3,475						3,498
Issuance of common stock for earnout	57	3	774						777
Amortization of unearned stock compensation				1,015					1,015
Other	(9)		(79)	94					15
DECEMBER 31, 1996	33,796	1,690	213,843	(1,129)	(160)	249	87,022		301,515
Comprehensive income:									
Net income								56,224	$56,224
Other comprehensive income, net of tax									
Unrealized gains on securities						9,489		9,489	
Reclassification of gains included in net income						(1,344)		(1,344)	

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Foreign currency translation adjustments						(35)		(35)	
Other comprehensive income								8,110	
Comprehensive income								$64,334	64,334
Issuance of common stock for acquisition	2,095	105	34,203						34,308
Exercise of stock options (including tax benefit)	442	21	5,927						5,948
Issuance of common stock for unearned stock compensation	169	9	3,335	(3,344)					
Issuance of common stock for earnout	44	2	775						777
Amortization of unearned stock compensation				1,718					1,718
Other	(3)		(142)	42					(100)
DECEMBER 31, 1997	36,543	1,827	257,941	(2,713)	(160)	8,359	143,246		408,500
Comprehensive loss:									
Net loss							(69,171)	$(69,171)	
Other comprehensive loss, net of tax									
Unrealized loss on securities						(19,745)		(19,745)	
Reclassification of gaines included in net loss						(769)		(769)	
Foreign currency translation adjustments						(496)		(496)	
Other comprehensive loss								(21,010)	
Comprehensive loss								$(90,181)	(90,181)
Common stock offering, net of offering costs	5,175	259	147,113						147,372
Issuance of common stock for purchase of subsidiaries	3,562	177	98,142						98,319
Issuance of common stock for earnout	3,359	168	29,914						30,082
Exercise of stock options (including tax benefit)	307	17	5,957						5,974
Issuance of common stock for unearned stock compensation	220	11	6,515	(6,526)					
Amortization of unearned stock compensation				2,544					2,544
Acquisition of treasury stock					(17,203)				(17,203)
Other	(67)	(3)	(1,711)	1,714					
DECEMBER 31, 1998	49,099	$2,456	$543,871	$(4,981)	$(17,363)	$(12,651)	$74,075		$585,407

</TABLE>
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See notes to consolidated financial statements.

AMRESCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998, 1997 and 1996
(In thousands)

<S>	<C> 1998	<C> 1997	<C> 1996
OPERATING ACTIVITIES:			
Net income (loss)	$ (69,171)	$ 56,224	$ 31,332
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Loss (gain) on sale of loans and investments	7,230	(103,385)	(18,394)
Depreciation and amortization	25,855	14,448	8,876
Accretion of interest income	(11,266)	(35,233)	(13,063)
Provisions for loan and asset portfolio losses	29,634	17,764	3,195
Deferred tax benefit	(2,431)	(15,039)	(1,101)
Other	9,863	2,438	1,015
Decrease in cash for changes in (exclusive of assets and liabilities acquired in business combinations):			
Accounts receivable, net	1,433	(6,833)	6,369
Loans held for sale, net	668,901	(876,829)	(128,713)
Retained interests in securitizations	(208,125)	(44,099)	(58,873)
Other assets	(62,538)	(14,284)	(6,441)
Accounts payable and accrued compensation and benefits	15,378	10,595	1,393
Warehouse loans payable	(629,370)	826,812	116,962
Income taxes payable/receivable	(87,411)	15,443	845
Other liabilities	27,452	48,026	6,222
Net cash used in operating activities	(284,566)	(103,952)	(50,376)

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INVESTING ACTIVITIES:			
Sale (purchase) of temporary investments, net		34,190	(12,248)
Origination of loans and purchase of asset portfolios	(903,816)	(599,937)	(218,879)
Collections on loans and asset portfolios	613,755	240,552	106,785
Purchase of asset-backed securities available for sale	(116,623)	(75,681)	(21,877)
Proceeds from sale of and collections on asset-backed securities available for sale	59,643	60,304	237
Cash used for purchase of subsidiaries	(68,951)	(2,176)	(57,437)
Investment in and advances to joint venture	(28,995)	(25,065)	(13,905)
Distribution from joint venture	26,802	17,789	
Proceeds from sale of premises		15,813	
Purchase of premises and equipment	(14,196)	(12,959)	(6,480)
Net cash used in investing activities	(432,381)	(347,170)	(223,804)
FINANCING ACTIVITIES:			
Net proceeds from notes payable and other debt	1,723,696	1,083,291	1,108,720
Repayment of notes payable and other debt	(1,423,164)	(827,443)	(886,036)
Proceeds from issuance of senior subordinated notes, net of issuance costs	320,828	186,146	
Proceeds from common stock offerings	147,372		60,890
Acquisition of treasury stock	(17,203)		
Stock options exercised and tax benefits from employee stock compensation	5,974	5,948	3,513
Net cash provided by financing activities	757,503	447,942	287,087
Net increase (decrease) in cash and cash equivalents	40,556	(3,180)	12,907
Cash and cash equivalents, beginning of year	25,866	29,046	16,139
Cash and cash equivalents, end of year	$ 66,422	$ 25,866	$ 29,046
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$224,067	$92,965	$35,667
Common stock issued for purchase of subsidiaries and earnouts	128,401	35,085	777
Income taxes paid	27,505	35,826	18,289
Common stock issued for unearned stock compensation	6,526	3,344	
Conversion of convertible debt to common stock			45,000
Accrued earnout payment for purchase of mortgage banking subsidiary			3,883

</TABLE>

See notes to consolidated financial statements.

AMRESCO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

AMRESCO, INC. (the "Company") is engaged primarily in the business of real estate lending, commercial finance and the acquisition, resolution and servicing of nonperforming and underperforming commercial loans. The Company's business may be affected by many factors, including real estate and other asset values, the level of and fluctuations in interest rates, changes in the securitization market (the Company is still active in the small business and franchise loan securitization markets) and competition. In addition, the Company's operations require continued access to short and long term sources of financing.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Interest and Other Investment Income. The Company's interest income consists of interest earned on loans and asset portfolios and accrued earnings on securities purchased or retained from securitization trusts. Interest income on loans and retained interests in securitizations is recorded as earned. Interest income represents the interest earned on the loans during the warehousing period (the period prior to their securitization), as well as loans held on the balance sheet on a long-term basis, and the recognition of interest income on the securities retained after securitization. Interest income is recognized using the effective yield method and includes accretion of discounts, amortization of premiums and market valuation adjustments for securities classified as trading.

Gain (Loss) on Sale of Loans and Investments. The Company computes a gain or loss on the sale and/or securitization of loans and

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investments based on the fair value of proceeds received over the allocated basis (between the assets sold and any retained interests) based upon their relative fair values at the date of sale. Retained interests in assets sold are initially recorded at their allocated basis and are classified as trading securities which are carried at estimated fair market value.

Mortgage Banking and Servicing Fees. Loan placement fees, commitment fees, loan servicing fees and real estate brokerage commissions are recognized as earned. Placement and servicing expenses are charged to expense as incurred.

Asset Management and Resolution Fees. Asset management and resolution fees from management contracts are based on the amount of assets under management and the net proceeds from the resolution of such assets, respectively, and are recognized as earned. Expenses incurred in managing and administering the assets subject to management contracts are charged to expense as incurred. The Company provides asset management and resolution services primarily for private investors. Generally, the contracts provide for the payment of a fixed management fee which is reduced proportionately as managed assets decrease, a resolution fee using specified percentage rates based on net cash collections and an incentive fee for resolution of certain assets. Asset management and resolution contracts are of a finite duration, typically three to five years. Unless new assets are added to these contracts during their terms, the amount of total assets under management decreases over the terms of these contracts.

Cash and Cash Equivalents. Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Accounts Receivable. Accounts receivable primarily represent receivables related to certain contracts. Receivables are recorded as the related revenues are earned according to the respective contracts. The Company's exposure to credit loss in the event that payment is not received for revenue recognized equals the balance of accounts receivable on the balance sheet.

Loans Held for Sale. Loans held for sale are carried at the lower of cost or market, net of deferred loan origination fees and associated direct costs and an allowance for loan loss. Loan origination fees and associated direct costs are deferred and recognized upon sale. Market value is determined based upon the estimated fair value of similar loans for the month of expected delivery.

Loans and Asset Portfolios. Loans are stated at face value, net of deferred loan origination fees and associated direct costs and net of an allowance for loan losses. Loan origination fees and incremental direct costs are deferred and recognized over the life of the loan as an adjustment to yield, using the interest method. Asset portfolios consist of pools of loans or real estate acquired at significant discounts to face value. The Company classifies its asset portfolios as loan portfolios, partnerships and joint ventures and real estate. The original cost of an asset portfolio is allocated to individual assets within that portfolio based on their relative fair value to the total purchase price. The difference between gross estimated cash flows from loans and its cost is accrued using the level yield method. The Company accounts for its investments in partnerships and joint ventures using the equity method which generally results in the pass-through of the Company's pro rata share of earnings as if the Company had a direct investment in the underlying assets. Loan portfolios, partnerships and joint ventures, and real estate are carried at the lower of cost, adjusted for equity earnings, or estimated fair value.

Allowances for Loan and Asset Portfolio Losses. The Company provides for estimated loan and asset portfolio losses by establishing allowances for losses through a charge to earnings. Actual losses reduce, and subsequent recoveries increase, each allowance. Management's periodic evaluation of each allowance for estimated losses is based upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors.

Asset-Backed Securities. The Company's investments in asset-backed securities are classified as available for sale and are carried at estimated fair value determined by quoted market rates when available, otherwise by discounting estimated cash flows at current

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market rates. Any unrealized gains or losses on asset-backed securities are excluded from earnings and included in accumulated other comprehensive income, a separate component of shareholders' equity, net of tax effects. Any realized gains or losses are included in earnings and are calculated based upon the specific identification method. Any impairment, other than temporary, in the value of a security is included in earnings.

Retained Interests in Securitizations. Retained interests in securitizations are classified as trading and are carried at estimated fair market value. The carrying value of the retained interests in securitizations is analyzed by the Company on a disaggregated basis to determine whether historical prepayment and loss experience, economic conditions and trends, collateral values and other relevant factors have had an impact on the carrying value. Changes in market value are included in earnings. Cash flows for retained interests in securitizations are generally subordinated to other security holders in a securitization trust. The retained interests in securitizations are valued at the discounted present value of the cash flows based upon the expected timing of the release of cash by the securitization trust ("cash-out method") over the anticipated life of the assets sold after estimated future credit losses, estimated prepayments and normal servicing and other related fees. The discounted present value of such retained interests is computed using management's assumptions of market discount rates, prepayment rates, default rates, credit losses and other costs.

Premises and Equipment. Premises and equipment, primarily building and improvements, are stated at cost less accumulated depreciation. The related assets are depreciated using the straight-line method over their estimated service lives, which range from one to fifteen years. Improvements to leased property are amortized over the life of the lease or the life of the improvement, whichever is shorter.

Intangible Assets. Intangible assets represent the excess of purchase price over the fair market value of tangible net assets acquired in connection with the purchases of other businesses. These intangible assets, principally goodwill, are amortized using the straight-line method over periods ranging from one to twenty-two years. The Company periodically assesses the recoverability of intangible assets and estimates the remaining useful life by reviewing projected results of acquired operations, servicing rights and contracts.

Mortgage Servicing Rights. The Company recognizes as separate assets the rights to service mortgage loans for others, whether the servicing rights are purchased or obtained through loan originations and contractually separated from the underlying loans by sale or securitization, by allocating total costs incurred between the loan sold and the servicing rights retained based upon their relative fair values. Amortization of mortgage servicing rights ("MSRs") is based upon the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSRs. Projected net servicing income is in turn determined on the basis of the estimated future balance of the underlying mortgage loan portfolio, which declines over time from pre-payments and scheduled loan amortization. The Company estimates future pre-payment rates based upon current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience. MSRs are periodically assessed for impairment which would be recognized in the consolidated statement of operations. The Company evaluates impairment through stratification of its loan portfolio based upon certain risk characteristics including loan type (commercial or residential) and note rate (fixed or adjustable).

Investment in AMRESCO Capital Trust. The Company currently owns approximately 1.5 million common shares, or 15%, of the outstanding common stock of AMRESCO Capital Trust ("ACT"), which is a real estate investment trust, and acts as manager of ACT. At December 31, 1998, the Company's investment in ACT was approximately $22.9 million, which is included in other assets, and is accounted for under the equity method of accounting. Subject to certain limited exceptions, the Company has granted to ACT a right of first refusal with respect to the first $100 million of targeted mortgage loan investments which are identified by or to the Company during any calendar quarter and all mortgage-backed securities (other than mortgage-backed securities issued in securitizations sponsored in whole or in part by the Company).

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Income Taxes. The Company and its subsidiaries file consolidated tax returns. Deferred income taxes are recorded for temporary differences between the bases of assets and liabilities as recognized by tax laws and their carrying value as reported in the financial statements.

Earnings per Share. Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing income available to common shareholders plus the after tax amount of interest recognized in the period associated with any convertible debt by the weighted-average number of common shares outstanding including the number of additional common shares that would have been outstanding if any dilutive potential common shares had been issued during the period.

Foreign Currency Translation. Assets and liabilities of foreign subsidiaries are translated into United States dollars at the prevailing exchange rate on the balance sheet date. Revenue and expense accounts for these subsidiaries are translated using the weighted-average exchange rate during the period. Equity accounts are translated at the historical exchange rate. These translation methods give rise to cumulative foreign currency translation adjustments, which are reported as a component of accumulated other comprehensive income with the exception of translation adjustments arising from the Company's investment in its Mexican subsidiary which is deemed by the Company to operate in a highly inflationary economy. Accordingly, such translation adjustments are included the current consolidated statement of operations.

Derivative Financial Instruments. Derivative financial instruments are utilized by the Company to reduce interest rate risk. Derivative financial instruments include interest rate swaps and caps and futures and forward contracts. The Company does not hold or issue derivative financial instruments for speculative or trading purposes. Gains and losses resulting from the termination of derivative financial instruments are recognized over the shorter of the remaining original contract lives of the derivative financial instruments or the lives of the related hedged positions or, if the hedged positions are sold, are recognized in the current period as gain or loss on sale (see Note 14).

New Accounting Standards. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for stand-alone derivative instruments and for derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires an entity to 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. This statement is effective for all fiscal quarters for fiscal years beginning after June 15, 1999. The Company has not yet determined the impact on the Consolidated Financial Statements upon adoption of this standard.

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise," which establishes accounting and reporting standards for certain activities of mortgage banking enterprises and other enterprises that conduct operations that are substantially similar to the primary operations of a mortgage banking enterprise. SFAS No. 134 requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities based upon its ability and intent to sell or hold those investments. This statement is effective for the first fiscal quarter beginning after December 15, 1998 with early adoption permitted. The Company will apply the new rules of SFAS 134 for its fiscal year beginning January 1, 1999. The Company believes the adoption of SFAS 134 will not have a material

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impact on the Company's results of operations or financial position.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. Significant estimates include the valuation of retained interests in securitizations, asset-backed securities and the allowances for loan and asset portfolio losses. Actual results may differ from such estimates.

Reclassifications. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

2. Acquisitions

All of the Company's acquisitions have been accounted for as purchases. Operations of acquired companies are included with those of the Company after the acquisition date. Goodwill related to the following acquisitions is amortized using the straight-line method over 10 to 15 years. Stock issued in connection with acquisitions was valued at the price of the stock at the time of the agreements.

On August 11, 1998, the Company acquired Mortgage Investors Corporation and an affiliated entity ("MIC"), a privately held producer of Veteran's Administration ("VA") streamlined re-financed loans, by merging a wholly-owned subsidiary of the Company with MIC. The merger agreement provided for an acquisition price of approximately 1.8 million shares of the Company's common stock and $2.6 million in cash. Additionally, the Company will pay an annual earnout over a three-year period, the total of which will not exceed $105.0 million, comprised of approximately 82% in the Company's common stock and 18% cash.

On July 22, 1998, the Company acquired the commercial mortgage banking business of Vanguard Commercial Mortgage, Inc. ("Vanguard") for 20,915 shares of the Company's common stock. In addition to the common stock, the Company paid $1.0 million in cash in connection with such acquisition.

On July 16, 1998, the Company purchased the assets of Independence Funding Company L.L.P. ("IFC") and TeleCapital L.P. ("TeleCapital") for approximately 1.3 million shares of the Company's common stock and cash of $44.0 million. IFC's primary line of business is providing long term financing to small businesses and TeleCapital's primary line of business is providing financing to the pay phone industry.

On April 30, 1998, the Company acquired the commercial mortgage banking business of PNS Realty Partners, L.P., PNS Realty Partners/Kentucky L.L.C., PNS Realty Partners/Indiana L.P. and PNS Realty Partners Multifamily (collectively "PNS") for 30,930 shares of common stock. In addition to the common stock, the Company paid approximately $7.3 million in cash in connection with such acquisition and will pay up to an additional $5.7 million in cash and stock over a three-year period in the event certain performance goals are met or exceeded during the fiscal years 1998, 1999 and 2000. At December 31, 1998, such performance goal was not attained requiring no performance accrual by the Company.

On February 23, 1998, the Company acquired the commercial mortgage banking business of Fowler, Goedecke, Ellis & O'Connor Incorporated ("Fowler") for 124,714 shares of Company's common stock. In addition to the common stock, the Company paid $12.8 million in cash in connection with such acquisition and will pay up to an additional $8.0 in cash and stock over the next three years in the event certain performance goals are met or exceeded during the fiscal years 1998, 1999 and 2000. At December 31, 1998, such performance goal was not attained requiring no performance accrual by the Company.

On January 28, 1998, the Company acquired the home equity lending business and operations of City Federal Funding & Mortgage Corp. and its affiliate, Finance America Corporation (collectively "City Federal") for 286,996 shares of the Company's common stock. In addition to the Common Stock, the Company paid $2.0 million in cash in connection with such acquisition and was to pay up to an additional $8.5 million in cash and stock over the next three years in the event certain performance goals are met or exceeded during the fiscal years 1998, 1999 and 2000. At December 31, 1998, such performance goal was not attained requiring no performance accrual by the Company.

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The purchase prices for the 1998 acquisitions were allocated as follows (in thousands):

<TABLE>
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	MIC	Vanguard	IFC	TeleCapital	PNS	Fowler	City Federal
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents				$ 263			
Accounts receivable	$ 2,085		$ 639	209			
Loans held for sale			49,008	36,116			
Loans			1,390				
Retained interests in securitizations			7,630				
Premises and equipment	4,034		250	25			$1,205
Intangible assets - goodwill	54,154	$1,600	40,843	13,956	$8,335	13,700	9,889
Other assets	113		4,517			2,300	34
Accounts payable and accrued liabilities	(4,526)		(1,560)				(94)
Income taxes payable	(2,289)					(118)	
Notes payable	(2,927)		(39,659)	(31,193)			
Other liabilities			(877)	(1,519)			
Net assets acquired	$50,644	$1,600	$ 62,181	$ 17,857	$8,335	$15,882	$11,034

</TABLE>

The following pro forma financial information for the twelve months ended December 31, 1998 and 1997 is presented as if the MIC, IFC and TeleCapital acquisitions occurred at the beginning of the periods presented and is not necessarily indicative of the results of operations that would have occurred if MIC, IFC and TeleCapital would have been purchased on these dates or of results that may occur in the future. Pro-forma financial information related to Vanguard, PNS, Fowler and City Federal was not included as the amounts are not material (in thousands, except per share data):

	Year Ended December 31, 1998	1997
Total revenues	$611,236	$481,650
Net income	(65,275)	63,256
Earnings per share:		
Basic	$(1.47)	$1.63
Diluted	(1.47)	1.59

On March 31, 1997, the Company purchased the stock of Commercial Lending Corporation and the operations and specific assets of certain of its affiliates ("CLC"). CLC's primary line of business was originating, securitizing, selling and servicing franchise loans. The purchase price consisted of approximately 2.1 million shares of the Company's common stock valued at $34.3 million, the assumption of certain liabilities and contingent earnout payments of additional shares of the Company's common stock based upon a percentage of adjusted net income of the acquired entities through March 31, 2000. Approximately 3.4 million shares of the Company's common stock were issued in 1998 based on 1998 and 1997 performance targets. The purchase price was allocated as follows (in thousands):

Cash and cash equivalents	$ 930
Accounts receivable	1,345
Loans held for sale	86,600
Retained interests in securitizations	7,848
Deferred income taxes	705
Intangible assets - goodwill	41,023
Other assets	1,403
Accounts payable and accrued liabilities	(296)
Warehouse loans payable	(87,291)
Notes payable	(15,633)
Other liabilities	(2,326)
Net assets acquired	$ 34,308

3. Loans Held for Sale

Loans held for sale were originated or acquired by the Company and are held for future sale or securitization. Such loans have mortgages on the underlying real estate or first liens on the related property and equipment. All of the Company's loans held for sale are pledged as collateral under the Company's various debt facilities. The maximum accounting loss if the borrower fails to pay is the carrying value. The Company does not believe it has significant concentration risk in any geographic area that could have a

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detrimental effect upon the Company. Loans held for sale at December 31, 1998 and 1997 consisted of the following (in thousands):

	1998	1997
Commercial and multifamily mortgage loans	$349,681	$ 286,657
Franchise and small business loans	176,700	57,026
Single family home equity loans	175,928	995,038
	702,309	1,338,721
Allowance for loan losses	(7,912)	(8,384)
Balance, end of year, net	$694,397	$1,330,337

At December 31, 1998, the Company was committed to sell as part of a December 1998 securitization approximately $45.4 million of small business loans.

The Company participates in the Federal National Mortgage Association ("Fannie Mae") Delegated Underwriting and Servicing ("DUS") program. As a DUS lender, a subsidiary of the Company takes first loss risk up to 5% of the loan amount and above 5% Fannie Mae and the subsidiary of the Company share the loss, with the subsidiary of the Company's maximum loss capped at 20% of the loan amount. The Company has experienced no losses in its total $991.6 million portfolio of sold DUS loans through December 31, 1998, however, the reserve for such loans stands at $6.1 million through December 31, 1998, and is included in other liabilities.

The activity in the allowance for loan losses for loans held for sale for the years ended December 31, 1998 and 1997 is summarized as follows (in thousands):

	1998	1997
Balance, beginning of year	$ 8,384	$ 1,390
Provision for loan losses	15,467	8,083
Charge-offs	(15,939)	(1,089)
Balance, end of year	$ 7,912	$ 8,384

4. Loans and Asset Portfolios

The Company's loans consist primarily of high yield loans to businesses and projects that were unable to access traditional lending sources and loans for single family residential construction. Asset portfolios consist of loans purchased at a substantial discount from their principal amount, real estate and investments in partnerships and joint ventures that invest in such assets. Substantially all of the Company's loan and asset portfolios are backed by commercial mortgage real estate. All of the Company's loans and asset portfolios are collateral under the Company's various debt facilities. The Company does not believe it has significant concentration risk in any geographic area that could have a detrimental effect upon the Company. The maximum accounting loss if the borrower fails to pay is the carrying value. Loans and asset portfolios at December 31, 1998 and 1997 consisted of the following (in thousands):

	1998	1997
Loans:		
Commercial loans	$359,145	$168,347
Residential construction loans	129,613	65,931
Total loans	488,758	234,278
Asset portfolios:		
Commercial real estate mortgages	216,276	296,591
Real estate	223,126	100,315
Partnerships and joint ventures	31,376	26,012
Total asset portfolios	470,778	422,918
Allowance for loan and asset portfolio losses	(16,417)	(8,502)
Balance, end of year, net	$943,119	$648,694

The activity in the allowance for loan and asset portfolio losses for the years ended December 31, 1998 and 1997 is summarized as follows (in thousands):

	1998	1997
Balance, beginning of year	$ 8,502	$ 905
Provision for loan and asset portfolio losses	7,971	9,136
Charge-offs	(56)	(1,539)
Balance, end of year	$16,417	$ 8,502

5. Asset-backed Securities

Asset-backed securities available for sale, carried at estimated fair value, at December 31, 1998 and 1997, were as follows (in

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thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
1998	$160,351	$18,173	$(37,343)	$141,181
1997	93,272	21,601	(7,196)	107,677

Net proceeds from sales of asset-backed securities aggregated $18.5 million and $52.3 million for the years ended December 31, 1998 and 1997, respectively, which resulted in gross realized gains of $8.0 million and $2.1 million in 1998 and 1997, respectively, and a gross realized loss of $6.7 million in 1998. Net proceeds from sales of asset-backed securities and the resulting gain were insignificant in 1996. Maturities of securities available for sale are not presented because the loans underlying such securities are subject to prepayment. All of the Company's asset-backed securities are collateral under the Company's various debt facilities.

6. Retained Interests in Securitizations

The Company's retained interests in securitizations consist primarily of interest only certificates retained in the Company's securitizations of home equity, franchise and small business loans and are generally subordinated to other security holders in a securitization trust. The retained interests are classified as trading securities and are carried on the Company's balance sheet at fair value, with the change in fair value during the period being included in earnings. The timing and amount of cash flows on these securities are significantly influenced by prepayments on the underlying loans, estimated foreclosure losses to the extent the Company has retained the risk of such losses and normal servicing and other related fees. The carrying value of the retained interests in securitizations at December 31, 1998 was determined by the Company on a disaggregated basis by discounting future cash flows using a weighted average discount rate of approximately 18%.

The Company has utilized, for initial valuation purposes in 1998, a 20% discount rate on its home equity securitizations, discount rates ranging from 18% - 20% for its commercial finance franchise loan securitizations and a 15% discount rate on its commercial finance small business loan securitizations. The actual weighted average annual prepayment rate on the Company's home equity securitizations was 24.57% for the period from inception of each security through December 31, 1998, which is higher than originally projected, and is modeled to be 28.34% for the next twelve months. Prepayment rates on the Company's franchise and small business loan securitizations are in line with expectations. Current valuations take into account the change in prepayment assumptions as well as other assumptions influenced by market conditions. The discount rate used to value the retained interests is influenced primarily by the underlying loan rate and the volatility and predictability of the underlying cash flows which generally become more certain as the securities season and prepayments and credit losses are more predictable.

The Company structures its franchise and small business loans with limited cross guarantees between borrowers such that the borrowers within a defined pool of loans absorb the first 5% - 10% of net losses. At the present time, the Company considers it unlikely that net losses on such loan portfolios will exceed the 5% - 10% range. Accordingly, losses are assumed to be zero. The Company has assumed no prepayments on its franchise and small business loan securitizations based on the significant prepayment penalties applicable to the loans and historical prepayment experience.

Net proceeds from sale of retained interests in securitizations were $102.2 million in 1997 with no such sale occurring in 1998.

The Company's retained interests in securitizations were measured by allocating the previous carrying amount between the assets sold and the interests retained (including mortgage servicing rights, if any) based on their relative fair values at the date of transfer. During 1998, the interests retained were subsequently marked-to-market which resulted in a $16.1 million decrease in the value of retained interests in securitizations, which is reflected as a reduction of interest and other investment income. In all of the Company's securitization transactions completed in 1998 and 1997, the Company has not retained any recourse obligation, other than retained interests, with respect to the assets sold other than standard representations and warranties. As of December 31, 1998, the Company

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had $23.2 million and $19.4 million of retained interests related to the Company's remaining interest from sales of commercial mortgage conduit and home equity loans in October 1998, respectively, and are expected to be collected in the first half of 1999. Retained interests in securitizations at December 31, 1998 and 1997 consisted of the following (dollars in thousands):

	1998	1997
Home equity loan interests	$413,412	$265,330
Conventional small business and franchise interests	69,892	28,732
Commercial mortgage whole loan sale interest	23,203	
Home equity whole loan sale interest	19,441	
SBA interests	7,612	
Other	5,417	
Total	$538,977	$294,062

7. Mortgage Servicing Rights:

The activity in mortgage servicing rights for the years ended December 31, 1998 and 1997 was as follows (in thousands):

	1998	1997
Balance at beginning of period	$ 3,394	$ -
Purchased	33,638	
Originated	16,227	3,585
Amortization	(3,872)	(191)
Balance at end of period	$49,387	$3,394

8. Notes Payable and Other Debt:

The Company's notes payable and other debt at December 31, 1998 and 1997, consisted of the following (in thousands):

	1998	1997
Notes payable:		
Revolving loan agreements	$640,198	$388,345
Non-recourse debt	176,960	121,647
Commercial paper conduit and builder note payable	85,434	51,869
Retained interest financing	54,411	21,581
Other	868	
Total notes payable	$957,871	$583,442
Warehouse loans payable:		
Commercial mortgage banking facilities	$311,142	$258,046
Home equity lending facilities	136,051	916,006
Commercial finance facilities	140,233	42,744
Total warehouse loans payable	$587,426	$1,216,796
8.75% senior notes due July 1, 1999	$57,500	$57,500
Senior subordinated notes:		
10.0% notes due January 15, 2003	$ 57,500	$ 57,500
10.0% notes due March 15, 2004	192,500	192,500
9.875% notes due March 15, 2005	330,179	
Total senior subordinated notes	$580,179	$250,000

Revolving Loan Agreements. Effective August 12, 1998, the Company entered into a Credit Agreement (the "Credit Agreement") with a syndicate of lenders led by NationsBank, N.A., as administrative agent and Credit Suisse First Boston, as syndication agent, which replaced the Third Amended and Restated Loan Agreement (as modified and amended) dated as of September 30, 1997. The Credit Agreement was entered into in order to increase the Company's borrowing limits, among other things.

The Credit Agreement constitutes senior debt and provides for a revolving loan commitment with short and long term commitments of $167.5 million and $502.5 million, respectively, and a term commitment of $67.5 million. Interest is payable quarterly and at the end of each advance period. The Credit Agreement is secured by substantially all of the assets of the Company not pledged under other credit facilities, including stock of a majority of the Company's subsidiaries. Indebtedness under the Credit Agreement generally bears interest at a rate based on the lower of (i) the applicable rate (as defined in the Credit Agreement) selected by the borrower between a variable rate (as defined in the Credit Agreement) or a London Interbank Offered Rate ("LIBOR") based rate (as defined in the Credit Agreement) or (ii) the maximum lawful rate (as defined in the Credit Agreement). The short and long term revolving facilities terminate August 11, 1999 and August 12, 2001, respectively, and the term loan

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commitment terminates August 12, 2003. The debt offering costs were included in other assets and are amortized over the life of the debt using the effective interest method. On November 30, 1998, the Credit Agreement was amended to, among other things, adjust interest rate margins based upon certain net worth calculations. As of December 31, 1998, a total of $640.2 million was outstanding under the Credit Agreement bearing interest at 8.3% with availability under the Credit Agreement of approximately $88.2 million. At December 31, 1998, the Company had outstanding $9.1 million in face amount of letters of credit pursuant to such facility. (See Note 16.)

Non-recourse Debt, Commercial Paper Conduit and Builder Note Payable, Retained Interest Financing and Warehouse Loans Payable. Non-recourse debt is used primarily to fund purchases of real estate mortgage backed securities and under-performing loan portfolios and is secured by the specific assets purchased totaling $210.5 million at December 31, 1998. The commercial paper conduit and builder note payable is used primarily to provide construction financing to various home builders and is secured by the specific assets funded with such debt totaling $87.6 million at December 31, 1998. Retained interest financing is used primarily to finance certain retained interests purchased or created during the Company's securitization process and is secured by the specific assets funded with such debt totaling $99.5 million at December 31, 1998. The Warehouse debt is used primarily to fund purchases and originations of commercial mortgage and home equity loans and is secured by the specific assets funded with such debt totaling $694.4 million at December 31, 1998. The following table summarizes the Company's non-recourse debt, commercial paper conduit and builder note payable, retained interest financing and warehouse loans payable at December 31, 1998 (in thousands of dollars):

Lender	Maximum Available	Outstanding Balance	Maturity Date	Base Interest Rate	12/31/98 Interest Rate
Non-recourse:					
Nationwide Building Society	$ 82,895	$ 57,437	October 2005	LIBOR + 0.95% to 1.25%	8.30%
Merrill Lynch	43,539	14,744	November 2000	90-day LIBOR + 2.20% to 3.20%	7.83
Bayerische Hypotheken	22,123	22,123	March 2000	90-day LIBOR + 1.25%	7.90
Morgan Stanley	21,528	21,528	30-day renewals	90-day LIBOR + 0.50% to 1.15%	8.81
Nomura	13,985	13,985	30-day renewals	90-day LIBOR + 1.00% to 1.50%	6.70
Prudential	10,791	10,791	30-day renewals	90-day LIBOR + 0.375%	5.44
Bayerische Handelsbank	10,044	10,044	March 2003	4.40%	4.40
Greenwich	7,838	7,838	30-day renewals	90-day LIBOR + 1.00%	6.07
First Union	6,008	6,008	30-day renewals	90-day LIBOR + 1.00% to 1.50%	6.21
Residential Funding Corporation	4,317	4,317	30-day renewals	90-day LIBOR + 1.25% to 1.50%	6.32
Donaldson Lufkin & Jenrette	3,609	3,609	30-day renewals	90-day LIBOR + 1.00%	6.07
Lehman Brothers	2,026	2,026	30-day renewals	90-day LIBOR + 1.50%	6.57
First American Bank Texas	1,029	1,029	June 2000	Prime Rate + 1.00%	8.34
NationsBank	841	841	30-day renewals	90-day LIBOR + 1.00% to 1.50%	6.26
Freemont Investment & Loan	640	640	June 2000	180 Day LIBOR + 3.50%	8.47
Total non-recourse	$231,213	$176,960			
Commercial Paper Conduit:					
Kitty Hawk Funding	$100,000	$85,434	June 1999	LIBOR + 1.40%	5.50%
Total commercial paper conduit	$100,000	$85,434			
Retained Interest Financing:					
Prudential (1)	$40,000	$40,000	January 1999	LIBOR + 2.00%	7.10%
Donaldson Lufkin & Jenrette	14,411	14,411	30-day renewals	LIBOR + 0.75% to 0.88%	6.10
Total retained interest financing	$54,411	$54,411			
Warehouse debt:					
Commercial mortgage banking:					
RFC	$325,000	$289,229	August 1999	LIBOR + 0.75% to 1.50%	6.42%
Morgan Stanley	21,913	21,913	January 1999	Eurodollar +0.70% to 1.25%	6.31
Total commercial mortgage banking	$346,913	$311,142			
Home equity lending:					
Prudential (1)	$250,000	$127,957	30-day renewals	LIBOR + 1.00%	5.60%
Lehman Brothers	8,094	8,094	30-day renewals	LIBOR + 1.50%	6.57
Total home equity lending	$258,094	$136,051			
Commercial finance:					
Prudential (small business loans) (1)	$200,000	$ 32,189	March 1999	LIBOR + 0.75%	5.85%
Prudential(franchise loans) (1)	150,000	29,160	May 1999	LIBOR + 0.75%	6.06
Salomon Brothers	200,000	23,202	March 2000	LIBOR + 0.95%	6.50

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Transamerica	75,000	55,682	December 2001	LIBOR + 2.00% to 2.25%	7.76
Total commercial finance	$625,000	$140,233			

</TABLE>

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(1) The Prudential warehouse facility is subject to a combined maximum facility limit of $550.0 million. The home equity lending maximum available facility was $250.0 million as of December 31, 1998, of which a maximum of $40.0 million was available for residual financing. A maximum of $200.0 million and $150.0 million is available for the purpose of facilitating the origination and warehousing of small business loans and franchise loans, respectively, with a combined commercial finance maximum facility of $250.0 million.

8.75% Senior Notes Due July 1, 1999. On July 1, 1996, the Company issued $57.5 million principal amount of senior notes with net proceeds of approximately $55.8 million. There is no sinking fund or amortization of principal prior to maturity and the senior notes are not redeemable prior to maturity. The debt offering costs have been included in other assets and are amortized over the life of the debt using the effective interest method. The senior notes are unsecured senior obligations of the Company and subordinated to the rights of holders of secured unsubordinated indebtedness of the Company to the extent of the value of the collateral securing such indebtedness.

10% Senior Subordinated Notes Due January 15, 2003. On January 30, 1996, the Company issued $57.5 million principal amount of senior subordinated notes with net proceeds of approximately $54.9 million. There is no sinking fund or amortization of principal prior to maturity and the senior subordinated notes are not redeemable prior to January 15, 2001. The debt offering costs were included in other assets and are amortized over the life of the debt using the effective interest method. The senior subordinated notes are unsecured general obligations of the Company and subordinated to all existing and future senior indebtedness (as defined in the Indenture) of the Company.

10% Senior Subordinated Notes Due March 15, 2004. On March 12, 1997, the Company issued $192.5 million aggregate principal amount of senior subordinated notes with net proceeds of approximately $186.6 million. The senior subordinated notes are unsecured obligations of the Company and are subordinated to prior payment of all existing and future senior debt and to indebtedness and other liabilities of the Company's subsidiaries. The debt offering costs were included in other assets and are amortized over the life of the debt using the effective interest method. The notes are not redeemable prior to maturity.

9.875% Senior Subordinated Notes Due March 15, 2005. On February 24, 1998 and March 10, 1998, the Company issued $290.0 million and $40.2 million, respectively, aggregate principal amount of senior subordinated notes with net proceeds of approximately $320.7 million. The senior subordinated notes are unsecured obligations of the Company and are subordinated to prior payment of all existing and future senior debt and to indebtedness and other liabilities of the Company's subsidiaries. The debt offering costs were included in other assets and are amortized over the life of the debt using the effective interest method. The notes are redeemable prior to maturity at 104.938% of their principal amount, plus accrued interest, any time after March 15, 2002, declining ratably to 100% of their principal amount, plus accrued interest, on or after March 15, 2004.

Covenants -- Each of the Company's notes payable and other debt agreements has certain covenants which include financial tests, including minimum consolidated tangible net worth, maximum consolidated funded debt to consolidated capitalization ratio, minimum fixed payment ratio, minimum interest coverage ratio, maximum debt to net worth ratio and minimum asset coverage ratio. The agreements also contain covenants that, among other things, limit the incurrence of additional indebtedness, investments, asset sales, loans to shareholders, dividends, transactions with affiliates, acquisitions, mergers and consolidations, liens and encumbrances and other matters customarily restricted. (See Note 16.)

Aggregate amounts of notes payable and other debt that mature during the next five years were as follows (in thousands):

	For the Year Ended December 31,					
	1999	2000	2001	2002	2003	Thereafter
Notes payable	$281,855	$38,535	$502,500		$ 77,544	$ 57,437
Warehouse loans payable	508,542	23,202	55,682			

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8.75% senior notes due July 1, 1999	57,500				
Senior subordinated notes				57,500	522,679
Total	$847,897	$61,737	$558,182	$135,044	$580,116

9. Income Taxes

Income tax expense (benefit) consisted of the following for the years ended December 31, 1998, 1997 and 1996 (in thousands):

	1998	1997	1996
Current:			
Federal	$(32,850)	$ 47,794	$18,456
State	2,619	3,118	1,779
Total current tax expense (benefit)	(30,231)	50,912	20,235
Deferred tax expense (benefit):			
Federal	(2,642)	(14,118)	(1,004)
State	211	(921)	(97)
Total deferred tax benefit	(2,431)	(15,039)	(1,101)
Total income tax expense (benefit)	$(32,662)	$ 35,873	$19,134

A reconciliation of income taxes on reported pretax income at statutory rates to actual income tax expense for the years ended December 31, 1998, 1997 and 1996, is as follows (dollars in thousands):

	1998		1997		1996	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Income tax at statutory rates	$(35,642)	35%	$32,234	35%	$17,663	35%
Non-deductible goodwill and other	2,289	(2)	851	1	234	1
State income taxes, net of Federal tax benefit	691	(1)	2,788	3	1,237	2
Total income tax expense	$(32,662)	32%	$35,873	39%	$19,134	38%

The net deferred tax assets at December 31, 1998 and 1997, consisted of the tax effects of temporary differences related to the following (in thousands):

	1998	1997
Reserves for loan and asset portfolio losses	$14,225	$ 7,556
Net operating loss carryforwards of acquired companies	6,976	7,327
Accrued employee compensation	4,486	2,782
Foreign tax credit carryforward	3,592	
Intangible assets	2,433	2,721
AMT credit carryforwards	602	602
Investment in subsidiaries	426	426
Securitized loans and investments	(5,293)	9,222
Other	4,483	1,963
Deferred tax asset before valuation allowance	31,930	32,599
Valuation allowance	(1,175)	(4,275)
Net deferred tax asset	$30,755	$28,324

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset, net of applicable valuation allowance, will be realized. The amount of the deferred tax asset considered realizable could be reduced or increased if estimates of future taxable income during the carryforward period are reduced or increased. As a result of acquisitions, the Company has available for its use the acquired net operating loss carryforwards existing at the acquisition dates. The Company is subject to certain annual limitations on the utilization of such losses. The following were the expiration dates and the approximate net operating loss carryforwards at December 31, 1998 (in thousands):

Expiration Date	Amount
2002	$ 874
2003	1,459
2006	372
2007	2,867
2008	3,838
2011	9,283
Total	$18,693

10. Employee Stock Compensation

The Company has a stock option and award plan for the benefit of key individuals, including its directors, officers and key employees.

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The plan is administered by a committee of the Board of Directors.

On October 20, 1998, the Board of Directors adopted a resolution to exchange approximately 5.7 million options to purchase the Company's common shares at exercise prices ranging from $7.50 to $34.56 per common share for approximately 4.0 million options having an exercise price of $7.44 per common share, representing fair market value at date of grant, which had no impact on the Company's financial statements. Stock option activity under the plan for the years ended December 31, 1998, 1997 and 1996 was as follows:

	Number of Shares	Option Price Per Share Range	Weighted Average Option Price Per Share
Options outstanding at December 31,1995	2,301,793	$ 0.60 - $11.38	$ 6.77
Granted	45,500	13.13 - 21.75	17.39
Exercised	(466,760)	3.50 - 11.38	4.28
Forfeited	(68,181)	4.50 - 11.38	6.98
Options outstanding at December 31, 1996	1,812,352	0.60 - 21.75	7.67
Granted	2,458,239	17.63 - 34.56	20.16
Exercised	(441,915)	0.60 - 21.75	6.33
Forfeited	(11,796)	6.88 - 11.38	9.34
Options outstanding at December 31, 1997	3,816,880	0.60 - 34.56	15.87
Granted	3,215,312	7.53 - 34.44	29.57
Exercised	(307,399)	3.50 - 21.75	12.64
Forfeited	(2,037,725)	3.50 - 34.56	24.82
Options outstanding at December 31, 1998	4,687,068	0.60 - 19.88	7.27
Options exercisable at December 31, 1998	1,709,659	0.60 - 19.88	6.85
Options available for grant at December 31, 1998	4,575,423		

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Outstanding Options	Options Exercisable	Weighted Average Price of Exercisable Options
$ 0.60 - $2.75	125,045	2	$ 2.49	125,045	$ 2.49
3.50	85,300	5	3.50	85,300	3.50
6.88 - 7.00	336,928	6	6.93	289,146	6.94
7.44	4,015,795	9	7.44	1,182,168	7.44
7.53	92,000	10	7.53	18,400	7.53
11.38 - 19.88	32,000	8	18.18	9,600	17.04
Total	4,687,068		7.27	1,709,659	6.85

At December 31, 1998, the Company has reserved a total of 4,687,068 shares of common stock for exercise of stock options.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock option and award plans. Under the terms of the plans, the exercise price of each option is equal to the market price of the Company's stock on the date of grant. Accordingly, no compensation expense has been recognized under these plans. Net income (loss) and earnings (loss) per share on a pro forma basis as if the Company had utilized fair value accounting methodology would have been as follows (in thousands, except per share data):

	For the Years Ended December 31, 1998	1997	1996
Net income (loss):			
As reported	$(69,171)	$56,224	$31,332
Pro forma	(75,430)	48,318	30,516
Basic earnings (loss) per share:			
As reported	$(1.61)	$1.59	$1.16
Pro forma	(1.76)	1.36	1.13
Diluted earnings (loss) per share:			

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As reported	$(1.61)	$1.53	$1.06
Pro forma	(1.76)	1.32	0.96

The estimated fair value of options granted during 1998, 1997 and 1996 was $4.21, $11.08 and $9.61 per share, respectively. For purposes of determining fair value of each option, the Company used the Black-Scholes model with the following assumptions:

	1998	1997	1996
Risk-free interest	4.19% - 4.50%	5.82% - 6.26%	5.98% - 7.21%
Expected life	5 years	7 years	7-8 years
Expected volatility	54%	43% - 46%	43% - 45%
Expected dividends	-	-	-

During 1998, the Company issued 186,471 shares of restricted common stock at prices ranging from $28.69 per share to $30.19 per share, with a weighted average price of $30.02 per share, under the Company's stock option and award plan. The Company's restricted stock typically vests over a period of five years with certain 1998 grants vesting in lump sum in the year 2001. During 1998, 1997 and 1996, $2.5 million, $1.7 million and $1.0 million in unearned stock compensation was amortized as compensation expense, respectively. At December 31, 1998 and 1997 reductions for employee stock included unearned stock compensation of $4.9 million and $2.6 million, respectively.

11. Common Stock

During July and August 1998, the Company repurchased 1.0 million shares of the Company's outstanding common stock at an average price of $17.20 per common share.

On July 16, 1998, the Company purchased the assets of IFC and TeleCapital for approximately 1.3 million shares of the Company's common stock and cash of $44.0 million. IFC's primary line of business is providing long term financing to small businesses and TeleCapital's primary line of business is providing financing to the pay phone industry. On August 11, 1998, the Company acquired the operations of MIC, a privately held specialized producer of VA streamlined re-financed loans, by merging a wholly-owned subsidiary of the Company with MIC. The merger agreement provided for an acquisition price of approximately 1.8 million shares of the Company's common stock and $2.6 million in cash. Additionally, the Company will pay an annual earnout over a three-year period, the total of which will not exceed $105.0 million, comprised of approximately 82% in the Company's common stock and 18% cash.

On February 24, 1998, March, 4, 1998, May 18, 1998 and July 28, 1998 the Company issued options to purchase approximately 331,000, 15,000, 152,000 and 2,629,000 shares, respectively, of common stock. On February 24, 1998, July 17, 1998 and July 22, 1998 the Company issued approximately 166,000, 34,000 and 21,000 restricted shares, respectively, of the Company's common stock to certain key employees.

On February 23, 1998, the Company completed a registered public offering of 5.2 million shares of common stock, including the underwriters' over-allotment option. The net proceeds from such offering, after underwriter's discount and offering expenses, aggregated approximately $147.2 million. The price to the public was $30.00 per share and the proceeds to the Company were $28.56 per share, after underwriting discounts.

On May 28, 1997, the Company adopted a Stockholders Rights Plan pursuant to which rights were distributed to stockholders of record as of June 9, 1997. The Stockholders Rights Plan provides, among other things, that if a person (or group of affiliated or associated persons) acquires (or ten days after the commencement of a tender offer to acquire) "beneficial ownership" of 15% or more of the outstanding shares of common stock, the rights previously distributed to stockholders, other than those owned by such acquiring person or group, will become exercisable. Under the Stockholders Rights Plan, the acquisition of 15% or more of the outstanding common stock or the completion of the tender offer will entitle the holder to purchase shares of common stock having a market value equal to twice the purchase price of the right.

On December 27, 1996, the Company redeemed its outstanding 8% convertible subordinated debentures due 2005 (the "Convertible Debentures"). The Convertible Debentures, with an aggregate face amount of $45.0 million, were converted into 3.6 million shares of the

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Company's common stock at a conversion price of $12.50 per share. All unamortized debt-offering costs related to the Convertible Debentures and included in other assets were recorded as a reduction to capital in excess of par.

A reconciliation of the numerators and denominators used in the basic and diluted earnings (loss) per share computations for net income (loss) is as follows (in thousands):

	1998	1997	1996
Net income (loss) - basic	$(69,171)	$56,224	$31,332
Effect of convertible debt, net of taxes			2,196
Net income (loss) - diluted	$(69,171)	$56,224	$33,528
Weighted average shares outstanding (basic)	42,846	35,412	27,043
Assuming conversion of convertible debt			3,600
Dilutive stock options		958	905
Contingently issuable shares		293	226
Weighted average shares outstanding (diluted)	42,846	36,663	31,774

As the Company posted a net loss for the year ended December 31, 1998, the effects of dilutive stock options and contingently issuable shares for the year ended December 31, 1998 are anti-dilutive and not included in the computation of diluted loss per share. Diluted loss per share including such anti-dilutive effects would have resulted in diluted loss per share of $(1.57). A reconciliation of the numerators and denominators used in the basic and diluted loss per share computation including such anti-dilutive effects for the year ended December 31, 1998 is as follows (in thousands):

	1998
Net loss (diluted)	$(69,171)
Weighted average shares outstanding (basic)	42,846
Dilutive stock options	789
Contingently issuable shares	370
Weighted average shares outstanding (diluted)	44,005

At December 31, 1998, the Company had 20,000 stock appreciation rights outstanding related to the market value of the Company's common stock which were granted to certain non-employees of the Company. The stock appreciation rights have an award value of $13.125 and an automatic conversion into cash on February 20, 2006.

12. Employee Compensation and Benefits

Accrued employee compensation and benefits at December 31, 1998 and 1997 included amounts for incentive compensation, severance and benefits. Certain employees are eligible to receive a bonus from a pool computed on pretax income over predetermined minimum earning levels.

The AMRESCO Retirement Savings and Profit Sharing Plan ("Plan") qualifies under Section 401(k) of the Internal Revenue Code and incorporates both a savings component and a profit sharing component for eligible employees. As determined each year by the Board of Directors, the Company may match the employee contribution up to 6% of their base pay based on the Company's performance. For 1998 and 1997, the matching contribution was set at $.50 for each $1.00 contributed by the employees. In addition to the matching savings contribution in 1997, the Company provided an annual contribution to the profit sharing retirement component of the Plan on behalf of all eligible employees. This portion of the Plan has been amended to assure that the Company is not required to make an employer profit sharing contribution to the Plan. No such contributions were made in 1998 due to the Company's net loss, however, it is anticipated that some level of profit sharing contribution will resume in future periods. For the years ended December 31, 1997 and 1996, the Company accrued profit sharing contributions of $3.1 million and $1.5 million, respectively. Allocation of the Company's contribution will be based on a percentage of an employee's weighted total pay. Weighted total pay places a stronger emphasis on the age of the employee and provides an increasingly larger profit sharing contribution as an employee nears retirement.

13. Commitments and Contingencies

The Company has entered into non-cancelable operating leases covering office facilities which expire at various dates through 2007. Certain of the lease agreements provide for minimum annual rentals

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with provisions to increase the rents to cover increases in real estate taxes and other expenses of the lessor. The Company also has leases on equipment, some of which are non-cancelable, which expire on various dates through 2005. The total rent expense for the years ended December 31, 1998, 1997 and 1996, was approximately $17.7 million, $9.9 million and $5.3 million, respectively. The future minimum annual rental commitments under non-cancelable operating lease agreements having a remaining term in excess of one year at December 31, 1998 were as follows (in thousands):

Year Ended December 31,	
1999	$11,615
2000	10,553
2001	8,669
2002	7,831
2003	6,499
Thereafter	10,913

The Company is a defendant in various legal actions. In the opinion of management, such actions will not materially affect the financial position, results of operations or cash flows of the Company.

14. Segment and Related Information

The Company has five reportable segments which have separate management teams and infrastructures that engage in different investments and offer different services: asset management, commercial mortgage banking, home equity lending, commercial finance and residential mortgage banking. The asset management business involves acquiring asset portfolios at a discount to face value and managing and resolving such asset portfolios to maximize cash recoveries. In addition, in its asset management business, the Company provides special servicing for nonperforming and underperforming loans in commercial mortgage-backed bond trusts and similar securitized commercial asset-backed loan portfolios. The commercial mortgage banking business involves the origination, warehousing, placement and servicing of commercial real estate mortgages and commercial real estate brokerage. The home equity lending business involves originating, selling and servicing nonconforming residential mortgage loans. In its commercial finance business, the Company focuses on (i) loans to franchisees of nationally recognized restaurant, hospitality and service organizations, (ii) loans to small business owners, (iii) real estate structured finance, (iv) communications finance and (v) single family residential construction lending. The residential mortgage banking line of business (which consists of the newly acquired operations of MIC) originates and sells VA streamlined re-financed loans.

The accounting policies are the same as those described in the summary of significant accounting policies with the exception of interest expense incurred by the Company being allocated to the subsidiaries in 1998 and 1997 based upon the subsidiaries' combined balance of common stock, paid in capital and intercompany accounts. During 1996, interest income and expense was recorded by the Company and the subsidiaries based upon the subsidiaries' intercompany balance multiplied by an interest rate pre-determined by management. The Company evaluates performance based upon operating income which is determined by adjusting operating profit to include intangible amortization expense.

The following represents the Company's reportable segment position as of and for the years ended December 31, 1998, 1997 and 1996 (in thousands):

<TABLE>
<CAPTION>

1998

	Asset Management	Commercial Mortgage Banking	Home Equity Lending	Commercial Finance	Residential Mortgage Banking(1)	All Other	Eliminations	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from external sources	$112,387	$ 71,018	$145,069	$122,047	$74,702	$ 1,281	$	$ 526,804
Interest expense	37,973	40,617	99,194	38,674	2,260	13,779		232,497
Depreciation and amortization	1,075	7,541	6,391	5,504	2,391	2,953		25,855
Operating income (loss)	39,838	(104,371)	(74,719)	46,591	32,926	(42,098)		(101,833)
Other significant non-cash items:								
Gain on sale of loans and investments			61,679	34,250				95,929
Segment assets	347,355	313,961	359,439	453,635	99,070	1,913,857	(568,607)	2,918,710

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(1) Began operations August 11, 1998.

1997

	Asset Management	Commercial Mortgage Banking	Home Equity Lending	Commercial Finance	All Other	Eliminations	Total
Revenues from external sources	$ 103,581	$ 97,533	$165,294	$ 51,212	$ 653	$ -	$ 418,273
Intersegment revenue			1,113			(1,113)	
Total revenues	103,581	97,533	166,407	51,212	653	(1,113)	418,273
Interest expense	22,590	3,193	53,939	13,224	10,230	(1,113)	102,063
Depreciation and amortization	1,957	4,491	3,511	1,940	2,549		14,448
Operating income (loss)	45,870	27,199	46,163	19,075	(46,210)		92,097
Other significant non-cash items:							
Gain on sale of loans and investments			69,615	15,453			85,068
Segment assets	298,311	1,131,317	337,807	174,079	966,982	(274,648)	2,633,848

1996

	Asset Management	Commercial Mortgage Banking	Home Equity Lending	Commercial Finance	All Other	Eliminations	Total
Revenues from external sources	$ 87,337	$ 54,438	$ 54,195	$2,976	$ 1,121	$	$ 200,067
Intersegment revenus	1,418	187	2,669	(29)	13,002	(17,247)	
Total revenues	88,755	54,625	56,864	2,947	14,123	(17,247)	200,067
Interest expense	15,151	2,269	18,541	959	17,090	(17,247)	36,763
Depreciation and amortization	2,468	3,683	810		1,915		8,876
Operating income (loss)	41,286	11,462	27,321	695	(30,298)		50,466
Other significant non-cash items:							
Gain on sale of loans and investments			16,933				16,933
Segment assets	123,978	121,328	390,612	2,467	595,578	(158,022)	1,075,941

</TABLE>

15. Financial Instruments and Risk Management

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to hedge against changes in interest rates. The Company may reduce its exposure to fluctuations in interest rates by creating offsetting positions through the use of derivative financial instruments. Derivatives are used to lower funding costs, to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities. The Company does not use derivative financial instruments for trading or speculative purposes, nor is the Company party to highly leveraged derivatives. These financial instruments include interest rate cap agreements, put options and forward and futures contracts. The instruments involve, to varying degrees, elements of interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Company controls the risk of its hedging agreements, interest rate cap agreements and forward and futures contracts through approvals, limits and monitoring procedures.

Futures and forward contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Initial margin requirements are met in cash or other instruments. Futures contracts have little credit risk because futures exchanges are the counterparties. Forward agreements and interest rate swaps and caps are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

The notional amount of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates, exchange rates, securities prices, or financial or other index. Market values of derivatives transactions fluctuate based upon movements in the underlying financial indices such as interest rates. Market values are monitored on a continual basis through external pricing mechanisms and internal calculations. The Company's objective measurement system together with risk limits and timely reporting to senior management help to mitigate the risks associated with market fluctuations. In the event that a derivative product were terminated prior to its contractual maturity, it is the Company's policy to recognize the resulting gain or loss over the shorter of the remaining original life of the derivative financial instrument or the life of the underlying hedged asset or liability. If the item being hedged is sold, settled

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or terminated, the derivative financial instrument is marked-to-market and any gain (loss) is recognized in earnings. No such terminations of derivative transactions prior to contractual maturity occurred during 1998 or 1997. If the derivative fails to effectively perform as a hedge and/or does not qualify as a hedge, it is marked-to-market and any gain (loss) is recognized in earnings.

At December 31, 1998, the Company had sold five forward contracts with a total notional amount of $162.3 million to hedge the interest rate risk associated with balances of loans held for sale, commitments to sell loans held for sale and balances of residential MBS which had carrying values of approximately $82.9 million, $65.0 million and $35.3 million, respectively, as of December 31, 1998. As of December 31, 1998, the Company had (i) two (U.S. Treasury and Federal National Mortgage Association ("Fannie Mae")) security contracts with a total notional amount of $63.8 million related to hedging $82.9 million of loans held for sale with settlement dates of January and February 1999, (ii) two Government National Mortgage Association thirty-year 6.0% contracts to sell approximately $65.0 million of residential mortgage banking loans to be delivered in February 1999 and (iii) one U.S. Treasury contract with a notional amount of $33.5 million which hedges approximately $35.3 million of residential MBS with a settlement date of January 1999. Any gain or loss on a forward contract is deferred and recognized when the related assets are sold. As of December 31, 1997, the Company had two forward contracts to sell ten-year U.S. Treasury securities which hedged a portion of the Company's MBS portfolio with a total notional amount of $48.2 million. In addition, four forward contracts were outstanding in with a notional amount of $101.5 million to sell Fannie Mae mortgage backed securities.

At December 31, 1998, the Company had one option contract to sell (put option) ten-year U.S. Treasury securities at contracted forward prices. The contract matures in March 1999 and hedges two commercial MBS with a carrying value of $25.6 million.

At December 31, 1998, the Company had one ten-year treasury note Fannie Mae futures contract with a notional amount of $21.4 million related to hedging approximately $18.9 million of loans. As of December 31, 1997, the Company had futures contracts with notional amounts of $445.2 million and $6.0 billion to hedge home equity lending loans held for sale and retained interests in securitizations, respectively.

At December 31, 1998, the Company had an amortizing interest rate cap with a notional amount of $1.0 billion hedging approximately $384.9 million of retained interests in securitizations. The cap requires monthly payments from the counterparty when one month LIBOR exceeds 5.9375%. The notional amount amortizes monthly based upon levels agreed to with the counterparty through the expiration of the agreement on July 26, 1999. The Company paid an initial premium of approximately $3.2 million for the cap. All such futures, options on futures contracts and caps are marked-to-market as are the retained interests in securitization. All realized and unrealized gains (losses) are recognized in earnings.

The Company purchases interest rate swap and cap agreements to reduce the impact of changes in interest rates on its floating rate debt. The Company enters into these agreements to change the fixed/variable interest rate mix of the debt portfolio to reduce the Company's aggregate risk to movements in interest rates. Accordingly, the Company enters into agreements to effectively convert variable-rate debt to fixed-rate debt to reduce the Company's risk of incurring higher interest costs due to rising interest rates. The cap agreements entitle the Company to receive from the counterparties the amounts, if any, by which an interest rate index exceeds agreed-upon thresholds. At December 31, 1998, the Company had four such agreements outstanding with a total notional amount of $31.7 million which hedge floating rate debt related to the Company's balances of residential MBS with a carrying value of $37.5 million. The contracts have cap rates ranging from 6.375% to 6.875% based upon one month LIBOR and expire on various dates between November 1999 and April 2000. The premiums paid for interest rate cap agreements purchased are included in other assets in the consolidated statements of financial condition and are amortized to interest expense over the terms of the agreements. Amounts received under cap agreements are recognized as yield adjustments to the related debt. At December 31, 1997, the Company had three cap agreements outstanding with notional amounts of $64.6 million which hedged floating rate debt with a carrying value of $62.6 million.

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Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affect by changes in economic or other conditions. The Company uses commercial rating agencies to evaluate the credit quality of the counterparties, all of whom are major international financial institutions. The Company does not have a significant exposure to any individual counterparty and does not anticipate a loss resulting from any credit risk of these institutions.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	December 31, 1998		December 31, 1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 66,422	$ 66,422	$ 25,866	$ 25,866
Loans held for sale, net	694,397	694,397	1,330,337	1,330,337
Loans and asset portfolios, net	943,119	983,988	648,694	674,081
Retained interests in securitizations - trading	538,977	538,977	294,062	294,062
Asset-backed securities - available for sale	141,181	141,181	107,677	107,677
Accounts receivable, net	86,620	86,620	19,183	19,183
Mortgage servicing right, net	49,387	49,387	3,394	3,394
Liabilities:				
Accounts payable	43,280	43,280	22,821	22,821
Notes payable and warehouse loans payable	1,545,297	1,545,297	1,800,238	1,800,238
Senior notes	57,500	56,063	57,500	58,147
Senior subordinated notes	580,179	416,606	250,000	257,356
Derivative Financial Instruments:				
Interest rate caps		(3,267)		2,498
Forward contracts		(828)		(88)
Futures contracts		164		(6,682)
Call options				8,979
Put options		(148)		135

The fair value of loans, asset portfolios, asset-backed securities, retained interests in securitizations, notes payable and other debt, senior notes and senior subordinated notes were estimated based on quoted market prices when available, otherwise, they were based on present values of estimated cash flows using current entry-value interest rates applicable to each category of such financial instruments (which notes reflect the credit risk applicable to the instruments). Mortgage loans held for sale were valued at their contracted sales prices. The carrying amount of cash and cash equivalents, accounts receivable, net of reserves, and accounts payable approximated fair value. The Company has reviewed its exposure on standby letters of credit and has determined that the fair value of such exposure is not material. The fair values of the interest rate cap agreements, forward and futures contracts and call and put options were estimated using market quotes. The fair value estimates presented herein were based on pertinent information available to management as of December 31, 1998 and 1997. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the date presented, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

16. Subsequent Events (Unaudited)

On February 28, 1999, the Credit Agreement was amended to replace a waiver which, among other things, adjusted the ratios to allow for

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the loss incurred in 1998. The interest rate remained consistent with the November 1998 amendment.

17. Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 1998 and 1997 (in thousands, except per share amounts):

	Year Ended December 31, 1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$140,798	$175,167	$180,040	$30,799
Income (loss) before income taxes	22,907	32,229	1,335	(158,304)
Net income (loss)	14,049	19,660	758	(103,638)
Earnings (loss) per share:				
Basic	0.36	0.46	0.02	(2.27)
Diluted	0.35	0.45	0.02	(2.27)

	Year Ended December 31, 1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$74,133	$103,083	$111,535	$129,522
Income before income taxes	13,606	20,686	25,552	32,253
Net income	8,561	12,486	15,336	19,841
Earnings per share:				
Basic	0.25	0.35	0.43	0.55
Diluted	0.25	0.34	0.41	0.53

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of AMRESCO, INC.:

We have audited the accompanying consolidated balance sheets of AMRESCO, INC. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of AMRESCO, INC.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AMRESCO, INC. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

\s\ Deloitte & Touche LLP
Dallas, Texas
February 9, 1999

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FIRST MODIFICATION OF CREDIT AGREEMENT

THIS FIRST MODIFICATION OF CREDIT AGREEMENT (this "Modification Agreement") is entered into as of September 17, 1998, by and between AMRESCO, INC., a Delaware corporation ("Borrower"), and NationsBank, N.A., a national banking association, as Administrative Agent ("Administrative Agent") for the Lenders (defined below).

W I T N E S S E T H:

WHEREAS, reference is made to the credit facilities made pursuant to and governed by that certain Credit Agreement (the "Credit Agreement") dated as of August 12, 1998, executed by and among Borrower, Administrative Agent, Credit Suisse First Boston, as Syndication Agent, and the financial institutions, funds and other entities listed as "Lenders" therein (the "Lenders") (each capitalized term used but not otherwise defined herein shall be defined as set forth in the Credit Agreement); and

WHEREAS, Borrower has requested certain modifications to the Credit Agreement; and

WHEREAS, the Lenders, acting through Administrative Agent pursuant to the Credit Agreement, have agreed to the requested modifications and waiver with respect thereto, subject to and upon the terms and conditions contained herein.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, That for and in consideration of the terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Administrative Agent, for and on behalf of the Lenders, and Borrower hereby agree as follows:

1. Amendment to Asset Coverage Requirement. Borrower has requested that the Asset Coverage Requirement set forth in Section 8.4 of the Credit Agreement be modified such that the ratio set forth therein is reduced to 1.2 to 1.0 during the period from September 2, 1998 through and including November 30, 1998. Accordingly, the second sentence of Section 8.4 of the Credit Agreement is hereby modified and amended to read as follows:

"In addition, Borrower shall not permit the ratio of the Asset Coverage Values to the aggregate outstanding balance of the Revolving Credit Facility (including Swingline Advances and Competitive Bid Loans), the Term

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Facility and the Letter of Credit Exposure to be less than (i) 1.4 to 1.0 from the Closing Date through and including September 1, 1998, and at any time from and after December 1, 1998, or (ii) 1.2 to 1.0 during the period commencing on September 2, 1998 through and including November 30, 1998 (the "Asset Coverage Requirement"), for any two consecutive Business Days."

2. Waiver Regarding Asset Coverage Requirement. To the extent that any Default or Event of Default occurred solely due to noncompliance with the Asset Coverage Requirement as set forth in Section 8.4 of the Credit Agreement during the period from September 2, 1998 until the effectiveness of the amendment to Section 8.4 set forth in the preceding paragraph 1 hereof, and provided that such Default or Event of Default would not have occurred under the terms of Section 8.4 as so amended, such Default or Event of Default is waived by the Lenders.

3. Treasury Stock Purchase. Borrower agrees that, notwithstanding anything to the contrary in the Credit Agreement (including without limitation the provisions of Section 8.19 thereof), Borrower shall not purchase any of its stock or other equity securities whatsoever at any time during the period commencing on the date hereof through and including November 30, 1998. Any such purchase from and after December 1, 1998 shall remain subject in all respects to the terms and conditions of the Credit Agreement, including without limitation Section 8.19 thereof.

4. Investments Definition. The definition of "Investments" in Section 1.1 of the Credit Agreement incorrectly refers to Section 8.10 rather than 8.9; accordingly, such definition is hereby amended to read as follows: "Investments has the meaning set forth in Section 8.9 hereof."

5. Definition of Loan Documents. The definition of "Loan Documents", as defined in the Credit Agreement and as used in the Credit Agreement, the other Loan Documents and herein, shall be, and is hereby, modified to include this Modification Agreement and any and all documents executed in connection herewith.

6. Conditions Precedent to this Modification Agreement. As conditions precedent to this Modification Agreement and the modifications to the Credit Agreement pursuant hereto, all of the following shall have been satisfied:

(a) Borrower and the Guarantors shall have executed and delivered to Administrative Agent this Modification Agreement; and

(b) Borrower shall have delivered to Administrative Agent

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all corporate resolutions, consents, powers of attorney, certificates or documents as Administrative Agent may request relating to (i) the existence of Borrower, and (ii) the corporate and partnership authority for the execution and validity of this Modification Agreement, together with all other documents, instruments and agreements and any other matters relevant hereto or thereto, all in form and content satisfactory to Administrative Agent.

7. Reaffirmation of Debt and Liens. Borrower acknowledges and agrees that it is well and truly indebted to Lenders pursuant to the terms of the Notes, the Credit Agreement and the other Loan Documents, as modified hereby, and that all liens and security interests securing the Obligations are and remain in full force and effect.

8. Ratification. Except as otherwise expressly modified by this Modification Agreement, all terms and provisions of the Credit Agreement, the Notes, and the other Loan Documents shall remain unchanged and hereby are ratified and confirmed and shall be and shall remain in full force and effect, enforceable in accordance with their terms.

9. Payment of Expenses. Borrower shall pay to Administrative Agent, on behalf of the Lenders, upon demand, the reasonable attorneys' fees and expenses of Administrative Agent's counsel and all filing and recording fees and other reasonable expenses incurred by Administrative Agent in connection with this Modification Agreement.

10. Further Assurances. Borrower shall execute and deliver to Administrative Agent such other documents as may be necessary or as may be required, in the opinion of counsel to Administrative Agent, to effect the transactions contemplated hereby and to protect the Lenders' liens and security interests.

11. Binding Agreement. This Modification Agreement shall be binding upon, and shall inure to the benefit of, the parties and their respective heirs, representatives, successors and assigns.

12. Enforceability. In the event the enforceability or validity of any portion of this Modification Agreement, the Credit Agreement, the Notes, or any of the other Loan Documents is challenged or questioned, such provision shall be construed in accordance with, and shall be governed by, whichever applicable federal or New York law would uphold or would enforce such challenged or questioned provision.

13. Choice of Law. THIS MODIFICATION AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN

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ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT FEDERAL LAWS PREEMPT THE LAWS OF THE STATE OF NEW YORK.

14. Counterparts. This Modification Agreement may be executed in multiple counterparts, all of which are identical, each of which shall be deemed an original, and all of which counterparts together shall constitute one and the same instrument.

15. Entire Agreement. This Modification Agreement, the Credit Agreement and the Notes, together with the other Loan Documents, contain the entire agreements between the parties relating to the subject matter hereof and thereof and all prior agreements relative thereto which are not contained herein or therein are terminated.

THIS MODIFICATION AGREEMENT AND THE OTHER WRITTEN INSTRUMENTS, AGREEMENTS AND DOCUMENTS EXECUTED IN CONNECTION WITH THIS MODIFICATION AGREEMENT, AND THE CREDIT AGREEMENT, THE NOTES, AND THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, this Agreement is executed effective as of the date first written above.

BORROWER:

AMRESCO, INC., a Delaware corporation

By:
Thomas J. Andrus,
Vice President and Treasurer

ADMINISTRATIVE AGENT:

NATIONSBANK, N.A.,
a national banking association, as Administrative Agent for the Lenders

By:
Elizabeth Kurilecz,
Senior Vice President

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ACKNOWLEDGED AND AGREED TO as of the
17th day of September, 1998, by:

GUARANTORS:

AFC EQUITIES, INC.
AFC EQUITIES MANAGEMENT, INC.
ALPINE, INC.
AMREIT HOLDINGS, INC.
AMREIT MANAGERS GP, INC.
AMRESCO ATLANTA INDUSTRIAL, INC.
AMRESCO BUILDERS GROUP, INC.
AMRESCO CAPITAL CONDUIT CORPORATION
AMRESCO CAPITAL LIMITED, INC.
AMRESCO CAPITAL, L.P.
AMRESCO CMF, INC.
AMRESCO COMMERCIAL FINANCE, INC.
AMRESCO CONSOLIDATION CORP.
AMRESCO EQUITY INVESTMENTS, INC.
AMRESCO EQUITY INVESTMENTS II, INC.
AMRESCO FINANCE AMERICA CORPORATION
AMRESCO FINANCIAL I, INC.
AMRESCO FINANCIAL I, L.P.
AMRESCO FUNDING CORPORATION
AMRESCO FUNDING OF GEORGIA, L.P.
AMRESCO FUNDING INVESTORS, INC.
AMRESCO FUNDING MANAGEMENT, INC.
AMRESCO FUNDING MID-ATLANTIC, INC.
AMRESCO FUNDING PACIFIC, INC.
AMRESCO INDEPENDENCE FUNDING, INC.
AMRESCO INSTITUTIONAL, INC.
AMRESCO INVESTMENTS, INC.
AMRESCO MANAGEMENT, INC.
AMRESCO MBS II, INC.
AMRESCO MORTGAGE CAPITAL LIMITED-I, INC.
AMRESCO MORTGAGE SERVICES LIMITED, INC.
AMRESCO NEW ENGLAND, L.P.
AMRESCO NEW ENGLAND II, L.P.
AMRESCO NEW ENGLAND, INC.
AMRESCO NEW ENGLAND II, INC.
AMRESCO NEW HAMPSHIRE, INC.
AMRESCO NEW HAMPSHIRE, L.P.
AMRESCO OVERSEAS, INC.
AMRESCO PORTFOLIO INVESTMENTS, INC.
AMRESCO PRINCIPAL MANAGERS I, INC.
AMRESCO PRINCIPAL MANAGERS II, INC.
AMRESCO RESIDENTIAL CAPITAL MARKETS, INC.
AMRESCO RESIDENTIAL CREDIT CORPORATION
AMRESCO RESIDENTIAL MORTGAGE CORPORATION
AMRESCO RESIDENTIAL PROPERTIES, INC.
AMRESCO RHODE ISLAND, INC.

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AMRESCO SERVICES, L.P.
AMRESCO VENTURES, INC.
AMRESCO 1994-N2, INC.
AMRESCO TEXAS, INC.
ASSET MANAGEMENT RESOLUTION COMPANY
BEI 1992 - N1, INC.
BEI 1993 - N3, INC.
BEI 1994 - N1, INC.
BEI MULTI-POOL, INC.
BEI PORTFOLIO INVESTMENTS, INC.
BEI PORTFOLIO MANAGERS, INC.
BEI REAL ESTATE SERVICES, INC.
BEI SANJAC, INC.
COMMONWEALTH TRUST DEED SERVICES, INC.
ENT MIDWEST, INC.
ENT NEW JERSEY, INC.
ENT SOUTHERN CALIFORNIA, INC.
EXPRESS FUNDING, INC.
FINANCE AMERICA CORPORATION
GRANITE EQUITIES, INC.
HOLLIDAY FENOGLIO FOWLER, L.P.
LIFETIME HOMES, INC.
MARKETING SOLUTION PUBLICATIONS, INC.
MORTGAGE INVESTORS CORPORATION
OAK CLIFF FINANCIAL, INC.
PRESTON HOLLOW ASSET HOLDINGS, INC.
QUALITY FUNDING, INC.
SAVE-MORE INSURANCE SERVICES INC.
WHITEROCK INVESTMENTS, INC.

By: AMRESCO, INC., a Delaware corporation, as agent and attorney-in-fact

By: Thomas J. Andrus,
Vice President and Treasurer

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SECOND MODIFICATION OF CREDIT AGREEMENT

THIS SECOND MODIFICATION OF CREDIT AGREEMENT (this "Modification Agreement") is entered into as of November 30, 1998, by and between AMRESCO, INC., a Delaware corporation ("Borrower"), and NationsBank, N.A., a national banking association, as Administrative Agent ("Administrative Agent"), for and on behalf of the Lenders (defined below).

W I T N E S S E T H:

WHEREAS, reference is made to the credit facilities made pursuant to and governed by that certain Credit Agreement (as amended, the "Credit Agreement") dated as of August 12, 1998, executed by and among Borrower, Administrative Agent, Credit Suisse First Boston, as Syndication Agent, and the financial institutions, funds and other entities listed as "Lenders" therein (the "Lenders"), as amended by First Modification of Credit Agreement (the "First Modification") dated as of September 17, 1998 (the "First Amendment") (each capitalized term used but not otherwise defined herein shall be defined as set forth in the Credit Agreement); and

WHEREAS, Borrower has requested certain consents and modifications to the Credit Agreement; and

WHEREAS, the Lenders, acting through Administrative Agent pursuant to the Credit Agreement, have agreed to the requested modifications, subject to and upon the terms and conditions contained herein.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, That for and in consideration of the terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Administrative Agent, for and on behalf of the Lenders, and Borrower hereby agree as follows:

1. Covenant Amendments. Borrower has requested the following amendments to the referenced covenants contained in the Credit Agreement:

(a) Minimum Consolidated Net Worth: The dollar amount set forth in clause (a) of Section 8.1 of the Credit Agreement will be reduced to $275,000,000 for the period commencing December 1, 1998 through and including February 28, 1999; accordingly, Section 8.1 is hereby amended to read in its

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entirety as follows:

"Section 8.1. Minimum Consolidated Tangible Net Worth . Borrower shall not permit Consolidated Tangible Net Worth to be less than the sum of (a) Three Hundred Thirty-Five Million and No/100 Dollars ($335,000,000) from the Closing Date through and including November 29, 1998, and at any time from and after March 1, 1999, or $275,000,000 for the period commencing November 30, 1998 through and including February 28, 1999, plus (b) seventy-five percent (75%) of the cumulative Consolidated Net Income for each calendar quarter commencing on July 1, 1998, through the quarter ending immediately prior to, or on, the date as of which compliance with this covenant is being measured, plus (c) seventy-five percent (75%) of the amount of any proceeds (less reasonable and customary transaction costs) received by Borrower from the issuance of any additional shares of stock or other equity instruments."

(b) Asset Coverage Requirement: The amendment to Section 8.4 of the Credit Agreement set forth in the First Modification will be extended through February 28, 1999 at the reduced ratio of 1.15 to 1.0; accordingly, Section 8.4 of the Credit Agreement is hereby amended to read in its entirety as follows:

"Section 8.4. Capital Adequacy; Asset Coverage. Borrower shall not permit an amount equal to Total Consolidated Debt less fifty percent (50%) of the face value of all Approved Subordinated Debt as of the last day of any fiscal quarter of Borrower to exceed the Adjusted Asset Amount at such time. In addition, Borrower shall not permit the ratio of the Asset Coverage Values to the aggregate outstanding balance of the Revolving Credit Facility (including Swingline Advances and Competitive Bid Loans), the Term Facility and the Letter of Credit Exposure to be less than (i) 1.4 to 1.0 from the Closing Date through and including September 1, 1998, and at any time from and after March 1, 1999, or (ii) 1.2 to 1.0 during the period commencing on September 2, 1998 through and including November 30, 1998, or (iii) 1.15 to 1.0 during the period commencing December 1, 1998 through and including February 28, 1999 (the "Asset Coverage Requirement"), for any two consecutive Business Days."

(c) Advance Percentage for Cash. The advance percentage for "Cash and Equivalents" as noted under the column designated "Advance %" on both Schedule III and Schedule IV of

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the Credit Agreement is increased from 100% to 115%; accordingly Schedule III and Schedule IV of the Credit Agreement are hereby amended to reflect 115% as the Advance % for Cash and Equivalents.

2. Pricing Increase. (a) From and after the effective date hereof, the LIBOR Margins and the Letter of Credit Fee percentages shall increase from those originally set forth in Schedule II to the Credit Agreement to those set forth in the new Schedule II attached as Exhibit A to this Modification Agreement, and the Schedule II attached to the Credit Agreement shall be modified, restated and replaced in its entirety by the Schedule II attached hereto as Exhibit A.

(b) From and after the effective date hereof, the Variable Rate shall increase from that set forth in the Credit Agreement; accordingly, the definition of Variable Rate in the Credit Agreement is hereby amended to read in its entirety as follows:

> "Variable Rate" means a fluctuating rate of interest equal to the sum of the Base Rate plus .625%; provided, however, that at any time that the ratio of the Asset Coverage Values to the aggregate outstanding balance of the Revolving Credit Facility (including Swingline Advances and Competitive Bid Loans), the Term Facility and the Letter of Credit Exposure is less than 1.4 to 1.0, as indicated in a monthly report calculating the Asset Coverage Requirement delivered to Administrative Agent pursuant to Section 7.1(f) , the Variable Rate shall be increased by 37.5 basis points (such that it equals the sum of the Base Rate plus 1.00%) upon Administrative Agent's receipt of such report until such time as Borrower delivers to Administrative Agent a subsequent monthly report calculating the Asset Coverage Requirement, as required under Section 7.1(f), showing that such ratio is equal to or greater than 1.4 to 1.0.

3. SBA Loans. Notwithstanding anything to the contrary contained in the Credit Agreement or any of the Security Documents (including without limitation the Collateral Assignment and the Security Agreement), the Collateral shall not include loans ("SBA Guaranteed Loans") that are originated or held by AMRESCO Independence Funding, Inc. (or another Subsidiary of Borrower licensed to originate or hold SBA guaranteed loans, subject to Administrative Agent's prior written approval of any

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such other Subsidiary) for which the Small Business Administration (the "SBA") has issued or is to issue a guaranty for a portion of any such loan pursuant to an agreement between AMRESCO Independence Funding, Inc. (or such other Subsidiary licensed to originate or hold SBA guaranteed loans and so approved by Administrative Agent) and the SBA (an "SBA Lender Agreement"), the SBA loan customer lists, the servicing rights and other general intangibles related to such SBA Guaranteed Loans or the collection or servicing thereof (excluding deposit accounts not containing any payments on account of or other proceeds of SBA Guaranteed Loans or the collection or servicing thereof), and computer hardware and software related to and utilized in the servicing solely of such SBA Guaranteed Loans and other SBA Lender Agreement Assets (as hereinafter defined), or any proceeds or products of such SBA Guaranteed Loans or other items for which the applicable SBA Lender Agreement prohibits assignment thereof, including without limitation retained interests in SBA Guaranteed Loans or securitizations thereof, collection accounts and other cash deposit accounts related to such SBA Guaranteed Loans, and real property acquired by foreclosure of such SBA Guaranteed Loans (collectively "SBA Lender Agreement Assets"), and such SBA Guaranteed Loans and related SBA Lender Agreement Assets shall not be included in the definitions of Collateral or Assigned Loans. Administrative Agent and Lenders agree that all such SBA Guaranteed Loans and related SBA Lender Agreement Assets are and shall be deemed excluded as Collateral under the Loan Documents and shall not be covered by or subject to the Security Agreement or the Collateral Assignment or the financing statements executed by AMRESCO Independence Funding, Inc. or any such other Subsidiary that originates or holds SBA Guaranteed Loans as approved by Administrative Agent.

4. Treasury Stock Purchase. Borrower agrees that, notwithstanding anything to the contrary in the Credit Agreement (including without limitation the provisions of Section 8.19 thereof), Borrower shall not purchase any of its stock or other equity securities whatsoever at any time during the period commencing on December 1, 1998 through and including February 28, 1999. Any such purchase from and after March 1, 1999 shall remain subject in all respects to the terms and conditions of the Credit Agreement, including without limitation Section 8.19 thereof.

5. Definition of Loan Documents. The definition of "Loan Documents", as defined in the Credit Agreement and as used in the Credit Agreement, the other Loan Documents and herein, shall be, and is hereby, modified to include this Modification Agreement and any and all documents executed in connection herewith.

6. Conditions Precedent to this Modification Agreement.

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As conditions precedent to this Modification Agreement and the modifications to the Credit Agreement pursuant hereto, all of the following shall have been satisfied:

(a) Borrower and the Guarantors shall have executed and delivered to Administrative Agent this Modification Agreement;

(b) Borrower shall have delivered to Administrative Agent all corporate resolutions, consents, powers of attorney, certificates or documents as Administrative Agent may request relating to (i) the existence of Borrower, and (ii) the corporate and partnership authority for the execution and validity of this Modification Agreement, together with all other documents, instruments and agreements and any other matters relevant hereto or thereto, all in form and content satisfactory to Administrative Agent;

(c) Borrower shall have paid all applicable amendment and other fees as agreed in connection with this Modification Agreement.

7. Reaffirmation of Debt and Liens. Borrower acknowledges and agrees that it is well and truly indebted to Lenders pursuant to the terms of the Notes, the Credit Agreement and the other Loan Documents, as modified hereby, and that all liens and security interests securing the Obligations are and remain in full force and effect.

8. Ratification. Except as otherwise expressly modified by this Modification Agreement, all terms and provisions of the Credit Agreement (as previously modified), the Notes, and the other Loan Documents shall remain unchanged and hereby are ratified and confirmed and shall be and shall remain in full force and effect, enforceable in accordance with their terms.

9. Payment of Expenses. Borrower shall pay to Administrative Agent, on behalf of the Lenders, upon demand, the reasonable attorneys' fees and expenses of Administrative Agent's counsel and all filing and recording fees and other reasonable expenses incurred by Administrative Agent in connection with this Modification Agreement.

10. Further Assurances. Borrower shall execute and deliver to Administrative Agent such other documents as may be necessary or as may be required, in the opinion of counsel to Administrative Agent, to effect the transactions contemplated hereby and to protect the Lenders' liens and security interests.

11. Binding Agreement. This Modification Agreement shall be binding upon, and shall inure to the benefit of, the parties

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and their respective heirs, representatives, successors and assigns.

12. Enforceability. In the event the enforceability or validity of any portion of this Modification Agreement, the Credit Agreement, the Notes, or any of the other Loan Documents is challenged or questioned, such provision shall be construed in accordance with, and shall be governed by, whichever applicable federal or New York law would uphold or would enforce such challenged or questioned provision.

13. Choice of Law. THIS MODIFICATION AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT FEDERAL LAWS PREEMPT THE LAWS OF THE STATE OF NEW YORK.

14. Counterparts. This Modification Agreement may be executed in multiple counterparts, all of which are identical, each of which shall be deemed an original, and all of which counterparts together shall constitute one and the same instrument.

15. Entire Agreement. This Modification Agreement, the Credit Agreement and the Notes, together with the other Loan Documents, contain the entire agreements between the parties relating to the subject matter hereof and thereof and all prior agreements relative thereto which are not contained herein or therein are terminated.

THIS MODIFICATION AGREEMENT AND THE OTHER WRITTEN INSTRUMENTS, AGREEMENTS AND DOCUMENTS EXECUTED IN CONNECTION WITH THIS MODIFICATION AGREEMENT, AND THE CREDIT AGREEMENT, THE NOTES, AND THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, this Agreement is executed effective as of the date first written above.

BORROWER:

AMRESCO, INC., a Delaware corporation

By:
Thomas J. Andrus,
Vice President and Treasurer

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ADMINISTRATIVE AGENT:

NATIONSBANK, N.A.,
a national banking association, as Administrative Agent for the Lenders

By:
Elizabeth Kurilecz,
Senior Vice President

ACKNOWLEDGED AND AGREED TO as of the
30th day of November, 1998, by:

GUARANTORS:

AFC EQUITIES, INC.
AFC EQUITIES MANAGEMENT, INC.
ALPINE, INC.
AMREIT HOLDINGS, INC.
AMREIT MANAGERS GP, INC.
AMRESCO ATLANTA INDUSTRIAL, INC.
AMRESCO BUILDERS GROUP, INC.
AMRESCO CAPITAL CONDUIT CORPORATION
AMRESCO CAPITAL LIMITED, INC.
AMRESCO CAPITAL, L.P.
AMRESCO CMF, INC.
AMRESCO COMMERCIAL FINANCE, INC.
AMRESCO CONSOLIDATION CORP.
AMRESCO EQUITY INVESTMENTS, INC.
AMRESCO EQUITY INVESTMENTS II, INC.
AMRESCO FINANCE AMERICA CORPORATION
AMRESCO FINANCIAL I, INC.
AMRESCO FINANCIAL I, L.P.
AMRESCO FUNDING CORPORATION
AMRESCO FUNDING OF GEORGIA, L.P.
AMRESCO FUNDING INVESTORS, INC.
AMRESCO FUNDING MANAGEMENT, INC.
AMRESCO FUNDING MID-ATLANTIC, INC.
AMRESCO FUNDING PACIFIC, INC.
AMRESCO INDEPENDENCE FUNDING, INC.
AMRESCO INSTITUTIONAL, INC.
AMRESCO INVESTMENTS, INC.
AMRESCO MANAGEMENT, INC.
AMRESCO MBS II, INC.
AMRESCO MORTGAGE CAPITAL LIMITED-I, INC.
AMRESCO MORTGAGE SERVICES LIMITED, INC.
AMRESCO NEW ENGLAND, L.P.

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AMRESCO NEW ENGLAND, INC.
AMRESCO NEW ENGLAND II, INC.
AMRESCO NEW HAMPSHIRE, INC.
AMRESCO NEW HAMPSHIRE, L.P.
AMRESCO OVERSEAS, INC.
AMRESCO PORTFOLIO INVESTMENTS, INC.
AMRESCO PRINCIPAL MANAGERS I, INC.
AMRESCO PRINCIPAL MANAGERS II, INC.
AMRESCO RESIDENTIAL CAPITAL MARKETS, INC.
AMRESCO RESIDENTIAL CREDIT CORPORATION
AMRESCO RESIDENTIAL MORTGAGE CORPORATION
AMRESCO RESIDENTIAL PROPERTIES, INC.
AMRESCO RHODE ISLAND, INC.
AMRESCO SERVICES, L.P.
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BEI REAL ESTATE SERVICES, INC.
BEI SANJAC, INC.
COMMONWEALTH TRUST DEED SERVICES, INC.
ENT MIDWEST, INC.
ENT NEW JERSEY, INC.
ENT SOUTHERN CALIFORNIA, INC.
EXPRESS FUNDING, INC.
FINANCE AMERICA CORPORATION
GRANITE EQUITIES, INC.
HOLLIDAY FENOGLIO FOWLER, L.P.
LIFETIME HOMES, INC.
MARKETING SOLUTION PUBLICATIONS, INC.
MORTGAGE INVESTORS CORPORATION
OAK CLIFF FINANCIAL, INC.
PRESTON HOLLOW ASSET HOLDINGS, INC.
QUALITY FUNDING, INC.
SAVE-MORE INSURANCE SERVICES INC.
WHITEROCK INVESTMENTS, INC.

By: AMRESCO, INC., a Delaware corporation, as
agent and attorney-in-fact

By:
Thomas J. Andrus,
Vice President and Treasurer

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EXHIBIT A

SCHEDULE II

COMMITMENT FEE PERCENTAGE; LIBOR MARGIN; LETTER OF CREDIT FEES

TIERS	Ratio of Total Consolidated Debt Less Outstanding Balance of Warehouse Lines to Borrower's Consolidated Net Worth*	LIBOR Margin**	Commitment Fee Percentages	Letter of Credit Fee Percentages**
I	Greater than or equal to 2.50X	(a) 237.5 b.p. (b) 337.5 b.p.	(c) 37.5 b.p. (d) 35.0 b.p.	237.5 b.p
II	Greater than or equal to 1.50X but less than 2.50X	(a) 212.5 b.p. (b) 312.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	212.5 b.p
III	Greater than or equal to 1.00X but less than 1.50X	(a) 200.0 b.p. (b) 300.0 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	200.0 b.p
IV	Less than 1.00X	(a) 187.5 b.p. (b) 287.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	187.5 b.p

(a) - The LIBOR Margin for the Revolving Credit Facility.
(b) - The LIBOR Margin for the Term Facility.
(c) - The Commitment Fee for the Long Term Revolving Facility
(d) - The Commitment Fee for the Short Term Revolving Facility

* - The calculation of the applicable ratio of Total Consolidated Debt less outstanding balance of Warehouse Lines to Borrower's Consolidated Net Worth shall be made and effective on the first day of the calendar month in which Administrative Agent receives the quarterly financial statements and related officer's certificate required to be delivered by Borrower pursuant to Section 7.2 (b) and (c) showing that such adjustment is appropriate (except that with respect to any Adjusted LIBOR Rate or Competitive Bid Loan then in effect, such change shall occur at the end of the applicable Interest Period or maturity as to the related Advance, LIBOR Rate Portion or Competitive Bid Loan),

** - Should Borrower receive an Investment Grade rating on its senior unsecured long term debt from both Standard & Poor's Ratings Group (a Division of McGraw - Hill, Inc.) and Moody's Investors Service, Inc., the LIBOR Margin and Letter of Credit Fee Percentages shall be reduced by 25 basis points

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- At any time that the ratio of the Asset Coverage Values to the aggregate outstanding balance of the Revolving Credit Facility (including Swingline Advances and Competitive Bid Loans), the Term Facility and the Letter of Credit Exposure is less than 1.4 to 1.0, as indicated in a monthly report calculating the Asset Coverage Requirement delivered to Administrative Agent pursuant to Section 7.1(f) of the Credit Agreement, each LIBOR Margin shall be increased by 37.5 basis points upon Administrative Agent's receipt of such report until such time as Borrower delivers to Administrative Agent a subsequent monthly report calculating the Asset Coverage Requirement, as required under Section 7.1(f) of the Credit Agreement, showing that such ratio is equal to or greater than 1.4 to 1.0.

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THIRD MODIFICATION OF CREDIT AGREEMENT AND CONSENT

THIS THIRD MODIFICATION OF CREDIT AGREEMENT AND CONSENT (this "Modification Agreement") is entered into as of February 28, 1999, by and between AMRESCO, INC., a Delaware corporation ("Borrower"), and NationsBank, N.A., a national banking association, as Administrative Agent ("Administrative Agent"), for and on behalf of the Lenders (defined below).

W I T N E S S E T H:

WHEREAS, reference is made to the credit facilities made pursuant to and governed by that certain Credit Agreement (as amended, the "Credit Agreement") dated as of August 12, 1998, executed by and among Borrower, Administrative Agent, Credit Suisse First Boston, as Syndication Agent, and the financial institutions, funds and other entities from time to time designated as "Lenders" therein (the "Lenders"), as amended by (i) First Modification of Credit Agreement (the "First Modification") dated as of September 17, 1998, and (ii) Second Modification of Credit Agreement (the "Second Modification") dated as of November 30, 1998 (each capitalized term used but not otherwise defined herein shall be defined as set forth in the Credit Agreement); and

WHEREAS, Borrower has requested certain consents and modifications to the Credit Agreement; and

WHEREAS, the Lenders, acting through Administrative Agent pursuant to the Credit Agreement, have agreed to the requested modifications, subject to and upon the terms and conditions contained herein.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, That, for and in consideration of the terms and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Administrative Agent, for and on behalf of the Lenders, and Borrower hereby agree as follows:

1. Definitions. (a) The following definitions shall be inserted in alphabetical order in Section 1.1 of the Credit Agreement.

(i) AMRESCO Pendragon Entity means AMRESCO Equity Investments, Inc., a Subsidiary of Borrower that is currently the holder of 490 shares of Series A common stock of Pendragon Corp.,

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and that is now and will be the holder of any common and preferred stock of, or other equity interests in, Pendragon Corp. owned at any time by Borrower or any of its Subsidiaries.

(ii) Asset Coverage Ratio means the ratio of the Asset Coverage Values to the aggregate outstanding balance of the Revolving Credit Facility (including Swingline Advances and Competitive Bid Loans), the Term Facility and the Letter of Credit Exposure.

(iii) Asset Coverage Variance Fee means the fee payable by Borrower to Lenders at such time or times that the Asset Coverage Ratio is less than 1.20 to 1.00, as described in and pursuant to Section 4 of the Third Modification of Credit Agreement and Consent.

(iv) Fixed Payment Ratio means as to Borrower (on a consolidated basis), for any date of determination, the ratio of (a) the sum of consolidated net income of Borrower and its Subsidiaries before taxes, plus depreciation and amortization (determined in accordance with GAAP), less any non-cash gains resulting from securitization transactions by or through Borrower's home equity lending line of business (to the extent included in the computation of consolidated net income), plus the amount of any proceeds (less reasonable and customary transaction costs) received by Borrower or its Subsidiaries from the issuance of any additional shares of stock or other equity interests from and after January 1, 1999, to (b) the aggregate amount, without duplication, of all payments by Borrower (or any Subsidiary or Affiliate of Borrower) to prepay outstanding amounts under the Senior Notes.

(v) MIC means Mortgage Investors Corporation, an Ohio corporation.

(vi) MIC Merger Agreement means the Agreement and Plan of Merger described in the definition of MIC Convertible Debt.

(vii) NIM Intermediate Trust Subsidiary means the Delaware business trust to be formed in connection with the NIM Transaction and to be the holder of 100% of the beneficial interest in the NIM Issuing Trust Subsidiary.

(viii) NIM Issuing Trust Subsidiary means AMRESCO Securitized Net Interest Margin Trust 1999-1, a Delaware business trust to be formed in connection with the NIM Transaction.

(ix) NIM Subsidiaries means the NIM Intermediate Trust Subsidiary and the NIM Issuing Trust Subsidiary.

(x) NIM Transaction means the transaction comprised of

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the establishment of the NIM Subsidiaries, the transfer of the Residual Assets Certificates to the NIM Subsidiaries (and release thereof from the Lenders' liens), and the permitted investments in the NIM Subsidiaries, subject to and in accordance with Section 9 of the Third Modification Agreement.

(xi) Pendragon Corp. means Pendragon Real Estate Corporation, a Delaware corporation, having AMRESCO Pendragon Entity and Shell Pensions Trust Limited as its sole shareholders.

(xii) Residual Assets Certificates means those certificates described on Exhibit A hereto evidencing the Retained Residential Residual Interests to be transferred to the NIM Intermediate Trust Subsidiary, and subsequently transferred to the NIM Issuing Trust Subsidiary.

(xiii) Retained Residential Residual Interests means the Retained Residential Residual Interests, as shown on Borrower's consolidated balance sheet, owned by Borrower or any Subsidiary of Borrower.

(xiv) Senior Notes means the Senior Notes, Series 1996-A due 1999, issued pursuant to the Senior Notes Indenture dated as of July 1, 1996, between Borrower and Comerica Bank, as Trustee, and the related Officer's Certificate and Company Order dated as of July 19, 1996, in the aggregate principal amount of $57,500,000.

(b) The following definitions set forth in Section 1.1 of the Credit Agreement shall be amended and modified as follows:

(i) Consolidated EBITDA. The definition of Consolidated EBITDA shall be amended to clarify that only non-recurring gains and losses that conform to the GAAP definition of "extraordinary" gains and losses shall be deducted for purposes of calculating Consolidated EBITDA; accordingly, that definition is amended to read in its entirety as follows:

> "Consolidated EBITDA means, for any period, determined in accordance with GAAP on a consolidated basis for Borrower and its Subsidiaries, an amount equal to (a) the sum of consolidated net income before taxes and extraordinary gains or losses (as determined in accordance with GAAP), plus depreciation, plus amortization, plus interest expense, each as deducted in determining such consolidated net income before taxes less (b) write downs of retained interests in securitizations (which includes, without limitation, interest only strips, servicing rights and other similar assets) for prior years to the extent prior year financial statements are restated in the period of determination to reflect such write downs and such

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write downs are not included in calculating net income for the period of determination; provided, however, that for all purposes hereunder, the losses related to the commercial mortgage banking and home equity lending activities of Borrower and its Subsidiaries (in an aggregate amount not to exceed $220,500,000) that were reported in the year-end 1998 Financial Statements of Borrower shall not be included in calculating Consolidated EBITDA."

(ii) Eligible Assignee. To provide Borrower approval rights with respect to an assignee of a Lender under the Credit Agreement, the definition of Eligible Assignee shall be amended to read in its entirety as follows:

"Eligible Assignee means (a) a Lender; (b) an Affiliate of a Lender; (c) a Related Fund of any Lender; and (d) any other Person approved by the Administrative Agent and by Borrower (which approval shall not be unreasonably withheld or delayed and, with respect to Borrower, shall not be required after the occurrence of a Default or an Event of Default); provided, however, that none of Borrower, Guarantors nor any Affiliate of Borrower or any of the Guarantors shall qualify as an Eligible Assignee."

(iii) Required Lenders. The definition of "Required Lenders" shall be amended to delete the requirement of a unanimous vote by all Lenders to effect an increase in the Applicable Rate for either Credit Facility. Accordingly, subsection (vii) of section (a) of the definition of "Required Lenders" is hereby deleted.

2. Covenant Amendments. The following amendments are made to the referenced covenants contained in the Credit Agreement:

(a) Monthly Asset Coverage Requirements Reports. The time limit for delivery of the monthly Asset Coverage Requirement reports shall be extended from fifteen (15) days to twenty (20) days. Accordingly, Section 7.1(f) of the Credit Agreement is amended to read in its entirety as follows:

"(f) Within twenty (20) days after the end of each calendar month, a report in form as attached hereto as Schedule IV and certified by an Authorized Officer as being true and correct calculating the Asset Coverage Requirement, together with such additional information related thereto as Administrative Agent shall require."

(b) Minimum Consolidated Net Worth: Section 8.1 is hereby amended to read in its entirety as follows:

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"Section 8.1. Minimum Consolidated Tangible Net Worth . Borrower shall not permit Consolidated Tangible Net Worth to be less than (a) $285,000,000 during the period from December 31, 1998, to the date on which the goodwill attributable to the payments to be made by Borrower in connection with the MIC transaction must be reflected in the financial statements of Borrower prepared in accordance with GAAP (the "Recognition Date"), (b) $190,000,000 from the Recognition Date through June 30, 1999, and (c) from and after July 1, 1999, an amount equal to the sum of the greater of (i) $200,000,000 or (ii) 85% of actual Consolidated Tangible Net Worth on June 30, 1999, plus (A) eighty-five percent (85%) of the cumulative Consolidated Net Income for each calendar quarter commencing on July 1, 1999, through the quarter ending immediately prior to, or on, the date as of which compliance with this covenant is being measured, plus (B) ninety percent (90%) of the amount of any proceeds (less reasonable and customary transaction costs) received by Borrower or its Subsidiaries from the issuance of any additional shares of stock or other equity interests from and after July 1, 1999."

(c) Interest/Dividend Coverage Ratio. Section 8.3 of the Credit Agreement is amended to read in its entirety as follows:

"Section 8.3. Interest/Dividend Coverage Ratio. Borrower shall not permit the Interest/Dividend Coverage Ratio to be less than (i) 1.50 to 1.00 from the Closing Date through December 30, 1999, and (ii) 1.75 to 1.00 from and after December 31, 1999."

(d) Asset Coverage Requirement: Section 8.4 of the Credit Agreement is hereby amended to read in its entirety as follows:

"Section 8.4. Capital Adequacy; Asset Coverage. Borrower shall not permit an amount equal to Total Consolidated Debt less fifty percent (50%) of the face value of all Approved Subordinated Debt as of the last day of any fiscal quarter of Borrower to exceed the Adjusted Asset Amount at such time. In addition, Borrower shall not permit the Asset Coverage Ratio to be less than 1.20 to 1.00 (the "Asset Coverage Requirement"); provided, however, that Borrower shall not be in violation of the Asset Coverage Requirement if for no more than two months in any twelve month period (which two months cannot be consecutive months), the Asset Coverage Ratio is less than 1.20 to 1.00, but is greater than 1.00 to 1.00, and Borrower has paid the

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applicable Asset Coverage Variance Fee due to any such occurrence."

(e) Investments. Section 8.9(c) (prior to clause (i) thereof), Section 8.9 (d) and Section 8.9(e) are amended to read in their entirety as follows:

"(c) Investments in Excluded Subsidiaries so long as (x) in the case of Excluded Subsidiaries other than the NIM Subsidiaries, the aggregate amount of such Investments does not exceed $200,000,000, of which $50,000,000 shall be allocated for and used only in association with the refinancing of existing indebtedness provided by Persons other than the Lenders whereby bankruptcy remote or similar vehicles properly designated by Borrower as Excluded Subsidiaries are utilized, and of which $70,000,000 shall be allocated for and used only in the normal course of business in support of financing and securitization activities of the commercial finance activities of Borrower and its Subsidiaries (as such sublimits may be adjusted from time to time by Administrative Agent in its sole and absolute discretion after receipt and review of all information and documents required by Administrative Agent in connection with any such adjustment requested by Borrower), and (y) in the case of the Excluded Subsidiaries that are the NIM Subsidiaries, so long as the aggregate amount of such Investments does not exceed $170,000,000; provided, however, that if the following requirements with respect to a particular Excluded Subsidiary are met in Administrative Agent's determination in its sole and absolute discretion, then Investments in such Excluded Subsidiary shall not be included for purposes of calculating the foregoing limitation:"

"(d) Investments by Borrower and the Guarantors in Foreign Subsidiaries, so long as the aggregate amount of such Investments (at original cost) does not exceed $200,000,000;"

"(e) Loans to any employees of Borrower or any Subsidiary of Borrower (i) to facilitate relocations, (ii) who are the former shareholders of MIC, in an aggregate amount not to exceed $17,000,000, evidenced by promissory notes that are due and payable in full on or before September 30, 1999, and are in form and content acceptable to Administrative Agent, and with respect to which such loans Borrower or any Subsidiary of Borrower is entitled to an offset under the MIC Merger Agreement, and (iii) in addition to those permitted above, so long as the aggregate

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of such loans pursuant to this clause (iii) does not exceed $1,500,000."

(f) Minimum Fixed Payment Ratio. There shall be added a new Section 8.20 to the Credit Agreement that shall read in its entirety as follows:

"Section 8.20. Certain Payment Limitations. Borrower shall not make or permit its Subsidiaries to make any prepayment on the Senior Notes if at the time of such prepayment, or as a result thereof, the Fixed Payment Ratio shall be less than 1.00 to 1.00. For purposes of determining compliance with this Section 8.20, the Fixed Payment Ratio shall be calculated on a rolling four quarters basis, commencing on January 1, 1999, or such applicable shorter period until four quarters have elapsed since January 1, 1999."

3. Pricing. The revised LIBOR Margins, Variable Rate and Letter of Credit Fee percentages set forth in the Second Modification shall remain in effect from and after the date hereof. Attached as Exhibit B to this Modification Agreement is a new Schedule II to more clearly reflect the applicable tiers of the LIBOR Margin and Letter of Credit Fee percentages; and the Schedule II attached to the Credit Agreement (as modified and replaced in the Second Modification) shall be modified, restated and replaced in its entirety by the Schedule II attached hereto as Exhibit B.

4. Asset Coverage Variance Fee. At any time that the Asset Coverage Ratio is less than 1.20 to 1.00, as indicated in a monthly report calculating the Asset Coverage Requirement delivered to Administrative Agent pursuant to Section 7.1(f) of the Credit Agreement, Borrower shall pay to Administrative Agent, for the ratable benefit of the Lenders, a fee (the "Asset Coverage Variance Fee") in an amount equal to the product of .125% per annum times the aggregate principal amount from day to day outstanding on the Revolving Credit Facility and the Term Facility for each day during the period from Administrative Agent's receipt of such report until such time as Borrower delivers to Administrative Agent a subsequent monthly report calculating the Asset Coverage Requirement, as required under Section 7.1(f), showing that the Asset Coverage Ratio is equal to or greater than 1.20 to 1.00. Any unpaid Asset Coverage Variance Fee shall be due and payable on the same dates as interest is due under the Revolving Notes (but in addition to any other payments due on such dates). The Asset Coverage Variance Fee shall be part of the Obligations under and as defined in the Credit Agreement for all purposes, and nonpayment thereof shall be an Event of Default under Section 9.1(a) of the Credit Agreement.

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5. Revolving Credit Facility Advances. Due to funding requirements and fluctuations on Alternate Currency Advances, the penultimate sentence of Section 2.1(a) of the Credit Agreement is amended to read as follows:

> "Advances shall be made under the Short Term Revolving Facility only after and so long as the Long Term Revolving Facility is fully funded, except for an amount under the Long Term Revolving Facility not to exceed $10,000,000 that may be reserved in Administrative Agent's sole discretion (but which is available for advance after advancing under the Short Term Revolving Facility) for fundings or fluctuations in Alternate Currency Advances."

6. Inspections. To make clear that Administrative Agent, in such capacity, is not limited in its inspection rights, the proviso at the end of the first sentence of Section 7.3 of the Credit Agreement is amended to read as follows:

> "provided, that, prior to the occurrence of a Default, each Lender (but not including Administrative Agent), will make no more than two such visits or inspections in any twelve month period."

7. Assignments. Sections 11.10(a)(iv) and 11.10(c) of the Credit Agreement are amended to read in their entirety as follows:

> "(iv) the parties to such assignment shall execute and deliver to Administrative Agent for its acceptance, with a copy to Borrower, an Assignment and Acceptance in the form of Exhibit D hereto, together with any Note subject to such assignment and a processing fee of $3,500 and payment of all legal fees and expenses incurred by Administrative Agent with respect to such assignment."

> "(c) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee and the legal fees and expenses of Administrative Agent, Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit D hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto."

8. Pendragon Asset Transfer and Release. In accordance with Section 5.7 of the Credit Agreement, Administrative Agent

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and the Lenders hereby agree that certain asset management assets of the AMRESCO Pendragon Entity, with an aggregate book value not to exceed $25,000,000, may be contributed to Pendragon Corp., and Administrative Agent will release the Lenders' Liens with respect to such transferred assets, provided that (a) all capital stock of Pendragon Corp. (both common and preferred) owned by the AMRESCO Pendragon Entity or any Subsidiary of Borrower, and all of the equity interests in the AMRESCO Pendragon Entity, are pledged to Administrative Agent, for the benefit of Lenders, on terms acceptable to Administrative Agent, and (b) Administrative Agent has received copies of and approved the terms of all documents evidencing the transaction contemplated by the referenced agreement with Pendragon Corp.

9. NIM Transaction. As a condition to the Lenders' approval of the NIM Transaction and the amendments to Section 8.9(c) of the Credit Agreement related to investments in the NIM Subsidiaries, Borrower represents, warrants and agrees with the Lenders that (a) the NIM Intermediate Trust Subsidiary will be a Delaware business trust, (b) 100% of the beneficial interests in the NIM Intermediate Trust Subsidiary will be held by AMRESCO Residential Capital Markets, Inc. ("ARCMI"), a wholly-owned Subsidiary of Borrower, (c) the NIM Intermediate Trust Subsidiary will be formed as an intermediate trust, which trust shall be a special purpose "bankruptcy remote" entity that has assets consisting solely of certificates evidencing interests in the NIM Issuing Trust Subsidiary, including all or a portion of the rated notes issued by the NIM Issuing Trust Subsidiary, (d) 100% of the beneficial interests in the NIM Issuing Trust Subsidiary will be held by the NIM Intermediate Trust Subsidiary, and the sole purpose of the NIM Issuing Trust Subsidiary will be to issue a series of rated notes secured by the Residual Assets Certificates, and (e) neither of the NIM Subsidiaries shall have any liabilities (including without limitation, federal income tax liabilities), except for certain liabilities of the NIM Issuing Trust Subsidiary that are expressly set forth in the trust indenture governing the NIM Issuing Trust Subsidiary, subject to Administrative Agent's prior approval (not to be unreasonably withheld) of the terms of such trust indenture and the specific terms of any of the liabilities incurred as permitted thereunder. ARCMI's 100% beneficial ownership certificate in the NIM Intermediate Trust Subsidiary shall be pledged to Administrative Agent for the benefit of the Lenders, on terms and subject to documentation acceptable to Administrative Agent in its sole discretion, and the NIM Intermediate Trust Subsidiary and the NIM Issuing Trust Subsidiary shall be Excluded Subsidiaries (as indicated on the replacement Schedule V to the Credit Agreement attached hereto as Exhibit E).

10. Treasury Stock Purchase. Notwithstanding anything to the contrary in the Credit Agreement (including without

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limitation the provisions of Section 8.19 thereof), Borrower shall not purchase any of its stock or other equity interests so long as any of the Obligations remain unpaid.

11. Prepayment of Senior Notes. Notwithstanding anything in the Credit Agreement to the contrary, Borrower shall be entitled to prepay the Senior Notes, in a maximum principal amount of $57,500,000, provided that at the time of such prepayment (a) Borrower shall be in compliance with new Section 8.20 of the Credit Agreement (as amended hereby), (b) there shall not have occurred a Default or Event of Default, and (c) Borrower shall have delivered written notice to Administrative Agent of such prepayment.

12. Interest Rate Buy-Downs. Notwithstanding anything contained in the Credit Agreement or any of the other Loan Documents, Borrower and any individual Lender (as used in this Section 12, a "Buy-Down Lender") may enter into an agreement (a "Buy-Down Agreement") with respect to all or a portion of the Revolving Commitment and/or the Term Facility held by such Buy-Down Lender, pursuant to which Buy-Down Agreement the interest otherwise payable by Borrower to such Buy-Down Lender during any interest calculation period shall be reduced based on the amount of certain deposits ("Available Deposits") maintained by Borrower with such Buy-Down Lender or its Affiliates. Borrower shall give Administrative Agent prompt written notice of any Buy-Down Agreement immediately upon execution thereof. Prior to the occurrence of an Event of Default and acceleration of the Obligations (upon which acceleration any Buy-Down Agreement shall terminate), any Buy-Down Lender shall invoice Borrower directly for all interest accrued and payable to such Buy-Down Lender on account of its Revolving Commitment and/or Term Note. Administrative Agent, in rendering any interest charges or billing pursuant to the Credit Agreement, shall have no obligation to bill any interest payable to a Buy-Down Lender in respect of its Revolving Commitment and/or Term Note, or to verify the amount of any Available Deposits or the interest amounts payable to any Buy-Down Lender in respect of its Revolving Commitment and/or Term Note, including without limitation any deficiency fees or other amounts payable to such Buy-Down Lender by Borrower under the applicable Buy-Down Agreement. Borrower shall pay all interest, and any deficiency fees or other amounts payable under any Buy-Down Agreement, directly to the applicable Buy-Down Lender as and when required under the Buy-Down Agreement. Any Buy-Down Lender may elect not to make demand for the payment of deficiency fees accruing in respect of Available Deposits from time to time, and it is expressly agreed and understood that (a) any such deficiency fees shall not, by reason of such failure of such Buy-Down Lender or otherwise, be deemed to have been waived by such Buy-Down Lender (except as such waiver is expressly acknowledged in writing by such Buy-Down Lender from time to time), and (b) all deficiency

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fees accrued and unpaid hereunder and not so expressly waived, whether or not previously declared due and owing by any such Buy-Down Lender, shall automatically be due and payable in full upon the Short Term Revolving Facility Termination Date, the Long Term Revolving Facility Termination Date, or the Term Facility Termination Date, as applicable.

13. Definition of Loan Documents. The definition of "Loan Documents", as defined in the Credit Agreement and as used in the Credit Agreement, the other Loan Documents and herein, shall be, and is hereby, modified to include this Modification Agreement and any and all documents executed in connection herewith.

14. Conditions Precedent to this Modification Agreement. As conditions precedent to this Modification Agreement and the modifications to the Credit Agreement pursuant hereto and the consents granted hereunder, all of the following shall have been satisfied:

(a) Borrower and the Guarantors (including all new Guarantors listed on the Supplement to Credit Agreement referred to in Section 14(d) below) shall have executed and delivered to Administrative Agent this Modification Agreement;

(b) Borrower shall have delivered to Administrative Agent all corporate resolutions, consents, powers of attorney, certificates or documents as Administrative Agent may request relating to (i) the existence of Borrower, and (ii) the corporate and partnership authority for the execution and validity of this Modification Agreement, together with all other documents, instruments and agreements and any other matters relevant hereto or thereto, all in form and content satisfactory to Administrative Agent;

(c) Borrower shall have paid all applicable amendment and other fees as agreed in connection with this Modification Agreement; and

(d) Borrower shall have caused to be executed and delivered to Administrative Agent a Supplement to the Loan Documents to add all Subsidiaries of Borrower, other than Excluded Subsidiaries, Foreign Subsidiaries and Investment Advisor Subsidiaries, as Guarantors under the Guaranty Agreement, and as assigning or pledging parties under the Collateral Assignment, the Security Agreement and the Pledge Agreement, and Administrative Agent shall have received all such corporate existence and authority documentation, resolutions and other agreements, stock certificates and other equity ownership certificates, stock powers, financing statements, instruments and certificates as Administrative Agent shall reasonably require with respect to such additional Guarantors. Borrower shall also have caused to

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be executed and/or delivered to Administrative Agent such modifications to the Stock Pledge Agreement and such stock certificates of, or other evidences of equity interests in, the Excluded Subsidiaries (with stock powers as applicable) to effectively evidence and perfect the Lenders' security interests therein.

15. Reaffirmation of Debt and Liens. Borrower acknowledges and agrees that it is well and truly indebted to the Lenders pursuant to the terms of the Notes, the Credit Agreement and the other Loan Documents, as modified hereby, and that all liens and security interests securing the Obligations are and remain in full force and effect.

16. Ratification. Except as otherwise expressly modified by this Modification Agreement, all terms and provisions of the Credit Agreement (as previously modified), the Notes, and the other Loan Documents shall remain unchanged and hereby are ratified and confirmed and shall be and shall remain in full force and effect, enforceable in accordance with their terms.

17. Payment of Expenses. Borrower shall pay to Administrative Agent, on behalf of the Lenders, upon demand, the reasonable attorneys' fees and expenses of Administrative Agent's counsel and all filing and recording fees and other reasonable expenses incurred by Administrative Agent in connection with this Modification Agreement.

18. Current Lenders, Guarantors and Excluded Subsidiaries. Attached hereto as Exhibit C is a replacement Schedule I to the Credit Agreement setting forth the names, addresses and percentages of each of the Lenders as of the date hereof. Attached hereto as Exhibit D is a correct and complete list of each of the Subsidiaries of Borrower that are required to be "Guarantors" under the Credit Agreement and related Loan Documents as of the date hereof, indicating the initial Guarantors that executed the Credit Agreement and the additional Guarantors added by a Supplement to the Loan Documents. Attached hereto as Exhibit E is a replacement Schedule V to the Credit Agreement which lists all of the Excluded Subsidiaries as of the date hereof.

19. Further Assurances. Borrower shall execute and deliver to Administrative Agent such other documents as may be necessary or as may be required, in the opinion of Administrative Agent and/or counsel to Administrative Agent, to effect the transactions contemplated hereby and to protect the Lenders' Liens and security interests, and the rights and remedies of Administrative Agent and/or the Lenders under the Loan Documents. Specifically, and without limitation of the foregoing or anything in Section 7.11 of the Credit Agreement, Borrower agrees to

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prepare and cause to be executed and delivered by such Subsidiaries of Borrower as Administrative Agent may designate from time to time in its sole discretion, promissory notes payable to Borrower evidencing the intercompany receivables of Borrower owing by such Subsidiaries, which intercompany notes shall be in form acceptable to Administrative Agent, and shall be endorsed to Administrative Agent by allonge, with the originals thereof being delivered to Administrative Agent, and shall be subject to and covered by the Security Agreement.

20. Binding Agreement. This Modification Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto, and the Lenders, and their respective legal representatives, successors and assigns.

21. Enforceability. In the event the enforceability or validity of any portion of this Modification Agreement, the Credit Agreement, the Notes, or any of the other Loan Documents is challenged or questioned, such provision shall be construed in accordance with, and shall be governed by, whichever applicable federal or New York law would uphold or would enforce such challenged or questioned provision.

22. Choice of Law. THIS MODIFICATION AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT FEDERAL LAWS PREEMPT THE LAWS OF THE STATE OF NEW YORK.

23. Counterparts. This Modification Agreement may be executed in multiple counterparts, all of which are identical, each of which shall be deemed an original, and all of which counterparts together shall constitute one and the same instrument.

24. Entire Agreement. This Modification Agreement, the Credit Agreement and the Notes, together with the other Loan Documents, contain the entire agreements between the parties relating to the subject matter hereof and thereof and all prior agreements relative thereto which are not contained herein or therein are terminated.

THIS MODIFICATION AGREEMENT AND THE OTHER WRITTEN INSTRUMENTS, AGREEMENTS AND DOCUMENTS EXECUTED IN CONNECTION WITH THIS MODIFICATION AGREEMENT, AND THE CREDIT AGREEMENT, THE NOTES, AND THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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IN WITNESS WHEREOF, this Agreement is executed effective as of the date first written above.

BORROWER:

AMRESCO, INC., a Delaware corporation

By:
Thomas J. Andrus,
Vice President and Treasurer

ADMINISTRATIVE AGENT:

NATIONSBANK, N.A.,
a national banking association, as Administrative Agent for the Lenders

By:
Elizabeth Kurilecz,
Senior Vice President

ACKNOWLEDGED AND AGREED TO as of the 28th day of February, 1999, by:

GUARANTORS:

AFC EQUITIES INVESTORS, INC., f/k/a AFC EQUITIES, INC.
AFC EQUITIES MANAGEMENT, INC. ALPINE, INC.
AMREIT HOLDINGS, INC.
AMREIT MANAGERS GP, INC.
AMRESCO ATLANTA INDUSTRIAL, INC.
AMRESCO BUILDERS GROUP, INC.
AMRESCO CAPITAL CONDUIT CORPORATION
AMRESCO CAPITAL LIMITED, INC.
AMRESCO CAPITAL, L.P.
AMRESCO CMF, INC.
AMRESCO COMMERCIAL FINANCE, INC.
AMRESCO CONSOLIDATION CORP.
AMRESCO EQUITY INVESTMENTS, INC.
AMRESCO EQUITY INVESTMENTS II, INC.
AMRESCO FINANCE AMERICA CORPORATION
AMRESCO FINANCIAL I, INC.
AMRESCO FINANCIAL I, L.P.
AMRESCO FUNDING CORPORATION
AMRESCO FUNDING OF GEORGIA, L.P.
AMRESCO FUNDING INVESTORS, INC.
AMRESCO FUNDING MANAGEMENT, INC.

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AMRESCO FUNDING PACIFIC, INC.
AMRESCO INDEPENDENCE FUNDING, INC.
AMRESCO-INSTITUTIONAL, INC.
AMRESCO INVESTMENTS, INC.
AMRESCO MANAGEMENT, INC.
AMRESCO MBS-II, INC.
AMRESCO MORTGAGE CAPITAL LIMITED-I, INC.
AMRESCO MORTGAGE SERVICES LIMITED, INC.
AMRESCO NEW ENGLAND, L.P.
AMRESCO NEW ENGLAND II, L.P.
AMRESCO NEW ENGLAND, INC.
AMRESCO NEW ENGLAND II, INC.
AMRESCO NEW HAMPSHIRE, INC.
AMRESCO NEW HAMPSHIRE, L.P.
AMRESCO OVERSEAS, INC.
AMRESCO PORTFOLIO INVESTMENTS, INC.
AMRESCO PRINCIPAL MANAGERS I, INC.
AMRESCO PRINCIPAL MANAGERS II, INC.
AMRESCO RESIDENTIAL CAPITAL MARKETS, INC.
AMRESCO RESIDENTIAL CREDIT CORPORATION
AMRESCO RESIDENTIAL MORTGAGE CORPORATION
AMRESCO RESIDENTIAL PROPERTIES, INC.
AMRESCO RHODE ISLAND, INC.
AMRESCO SERVICES, L.P.
AMRESCO VENTURES, INC.
AMRESCO 1994-N2, INC.
AMRESCO TEXAS, INC.
ASSET MANAGEMENT RESOLUTION COMPANY
BEI 1992 - N1, INC.
BEI 1993 - N3, INC.
BEI 1994 - N1, INC.
BEI MULTI-POOL, INC.
BEI PORTFOLIO INVESTMENTS, INC.
BEI PORTFOLIO MANAGERS, INC.
BEI REAL ESTATE SERVICES, INC.
BEI SANJAC, INC.
COMMONWEALTH TRUST DEED SERVICES, INC.
ENT MIDWEST, INC.
ENT NEW JERSEY, INC.
ENT SOUTHERN CALIFORNIA, INC.
EXPRESS FUNDING, INC.
FINANCE AMERICA CORPORATION
GRANITE EQUITIES, INC.
HOLLIDAY FENOGLIO FOWLER, L.P.
LIFETIME HOMES, INC.
MSPI, INC., f/k/a MARKETING SOLUTION PUBLICATIONS, INC.
MORTGAGE INVESTORS CORPORATION
OAK CLIFF FINANCIAL, INC.
PRESTON HOLLOW ASSET HOLDINGS, INC.
QUALITY FUNDING, INC.

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AMRESCO INSURANCE SERVICES, INC., f/k/a
SAVE-MORE INSURANCE SERVICES, INC.
WHITE ROCK INVESTMENTS, INC.
AFC EQUITIES, L.P.
AMREIT MANAGERS, L.P.
AMRESCO-MBS I, INC.
AMRESCO MORTGAGE CAPITAL, INC.
HF ACQUISITION SUB, INC.

By: AMRESCO, INC., a Delaware corporation, as agent and attorney-in-fact

By:
Thomas J. Andrus,
Vice President and Treasurer

EXHIBIT A

NIM CERTIFICATES

1. AMRESCO Residential Securities Corporation Mortgage Loan Trust Series 1996-4
   Class B-IO Certificate
   Class R Certificate

2. AMRESCO Residential Securities Corporation Mortgage Loan Trust Series 1996-5
   Class B-IO Certificate
   Class R Certificate

3. AMRESCO Residential Securities Corporation Mortgage Loan Trust Series 1998-3
   Class C-AI Certificate
   Class C-FIO Certificate
   Class R Certificate
   (The Class D and Class S Certificate will remain pledged)

EXHIBIT B

SCHEDULE II

COMMITMENT FEE PERCENTAGE; LIBOR MARGIN; LETTER OF CREDIT FEES

1. If the Asset Coverage Ratio is equal to or greater than 1.40 to 1.00:

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TIERS	Ratio of Total Consolidated Debt Less Outstanding Balance of Warehouse Lines to Borrower's Consolidated Net Worth*	LIBOR Margin**	Commitment Fee Percentages	Letter of Credit Fee Percentages**
I	Greater than or equal to 2.50X	(a) 237.5 b.p. (b) 337.5 b.p.	(c) 37.5 b.p. (d) 35.0 b.p.	237.5 b.p
II	Greater than or equal to 1.50X but less than 2.50X	(a) 212.5 b.p. (b) 312.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	212.5 b.p
III	Greater than or equal to 1.00X but less than 1.50X	(a) 200.0 b.p. (b) 300.0 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	200.0 b.p
IV	Less than 1.00X	(a) 187.5 b.p. (b) 287.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	187.5 b.p

(a) - The LIBOR Margin for the Revolving Credit Facility.
(b) - The LIBOR Margin for the Term Facility.
(c) - The Commitment Fee for the Long Term Revolving Facility
(d) - The Commitment Fee for the Short Term Revolving Facility
* - The calculation of the applicable ratio of Total Consolidated Debt less outstanding balance of Warehouse Lines to Borrower's Consolidated Net Worth shall be made and effective on the first day of the calendar month in which Administrative Agent receives the quarterly financial statements and related officer's certificate required to be delivered by Borrower pursuant to Section 7.2 (b) and (c) showing that such adjustment is appropriate (except that with respect to any Adjusted LIBOR Rate or Competitive Bid Loan then in effect, such change shall occur at the end of the applicable Interest Period or maturity as to the related Advance, LIBOR Rate Portion or Competitive Bid Loan),
** - Should Borrower receive an Investment Grade rating on its senior unsecured long term debt from both Standard & Poor's Ratings Group (a Division of McGraw - Hill, Inc.) and Moody's Investors Service, Inc., the LIBOR Margin and Letter of Credit Fee Percentages shall be reduced by 25 basis points

2. If the Asset Coverage Ratio is less than 1.40 to 1.00:

Ratio of Total Consolidated Debt Less Outstanding	Commitment	Letter of

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TIERS	Balance of Warehouse Lines to Borrower's Consolidated Net Worth*	LIBOR Margin**	Fee Percentages	Credit Fee Percentages**
I	Greater than or equal to 2.50X	(a) 275.0 b.p. (b) 337.5 b.p.	(c) 37.5 b.p. (d) 35.0 b.p.	275.0 b.p
II	Greater than or equal to 1.50X but less than 2.50X	(a) 250.0 b.p. (b) 312.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	250.0 b.p
III	Greater than or equal to 1.00X but less than 1.50X	(a) 237.5 b.p. (b) 300.0 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	237.5 b.p
IV	Less than 1.00X	(a) 225.0 b.p. (b) 287.5 b.p.	(c) 25.0 b.p. (d) 22.5 b.p.	225.0 b.p

(a) - The LIBOR Margin for the Revolving Credit Facility.
(b) - The LIBOR Margin for the Term Facility.
(c) - The Commitment Fee for the Long Term Revolving Facility
(d) - The Commitment Fee for the Short Term Revolving Facility

* - The calculation of the applicable ratio of Total Consolidated Debt less outstanding balance of Warehouse Lines to Borrower's Consolidated Net Worth shall be made and effective on the first day of the calendar month in which Administrative Agent receives the quarterly financial statements and related officer's certificate required to be delivered by Borrower pursuant to Section 7.2 (b) and (c) showing that such adjustment is appropriate (except that with respect to any Adjusted LIBOR Rate or Competitive Bid Loan then in effect, such change shall occur at the end of the applicable Interest Period or maturity as to the related Advance, LIBOR Rate Portion or Competitive Bid Loan),

** - Should Borrower receive an Investment Grade rating on its senior unsecured long term debt from both Standard & Poor's Ratings Group (a Division of McGraw - Hill, Inc.) and Moody's Investors Service, Inc., the LIBOR Margin and Letter of Credit Fee Percentages shall be reduced by 25 basis points

EXHIBIT C

SCHEDULE 1
(Replacement as of February 28, 1999)

LENDERS AND BORROWER

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I. LENDERS, AGENTS AND ARRANGERS

A. ADMINISTRATIVE AGENT

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attn: Elizabeth Kurilecz
Tel: (214) 508-0975
Fax: (214) 508-0604

B. SYNDICATION AGENT

Credit Suisse First Boston
Eleven Madison Avenue, 20th Floor
New York, New York 10010-3629
Attn: Jay Chall
Tel: (212) 325-9010
Fax: (212) 325-8320

C. ARRANGERS

NationsBanc Montgomery Securities LLC
901 Main Street, 66th Floor
Dallas, Texas 75202
Attn: Gary Kahn
Tel: (214) 508-3507
Fax: (214) 325-8320

Credit Suisse First Boston
Eleven Madison Avenue, 20th Floor
New York, New York 10010-3629
Attn: Jay Chall
Tel: (212) 325-9010
Fax: (212) 325-8320

C. REVOLVING LENDERS:

NationsBank, N.A.
901 Main Street, 66th Floor
Dallas, Texas 75202
Attn: Elizabeth Kurilecz
Tel: (214) 508-0975
Fax: (214) 508-0604

Bank One, Texas, NA
1717 Main Street, 4th Floor
Dallas, Texas 75201
Attn: Kristin Blanchard
Tel: (214) 290-3028

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Fax: (214) 290-2054

Bank United
3200 S.W. Freeway
Suite 2422
Houston, TX 77027
Attn: Deborah A. Bourque
Tel: (713) 543-6397
Fax: (713) 543-6022

Comerica Bank - Texas
8828 Stemmons, Suite 441
Dallas, Texas 75247
Attn: David Terry
Tel: (214) 841-4419
Fax: (972)-263-9837

Credit Lyonnais, New York Branch
1301 6th Avenue
New York, New York 10019
Attn: Paul Connolly
Tel: (212) 261-3885
Fax: (212) 261-3401

Fleet Bank, N.A.
1185 Avenue of the Americas
16th Floor
New York, New York 10036
Attn: Kevin Batterton
Tel: (212) 819-6076
Fax: (212) 819-6207
The Bank of New York
One Wall Street, 17th Floor
New York, NY 10286
Attn: Robert A. Tweed
Tel: (212) 635-6465
Fax: (212) 635-6468

LaSalle National Bank
135 South LaSalle Street
Chicago, Illinois 60603
Attn: Terry Keating
Tel: (312) 904-2689
Fax: (312) 904-2982

U.S. Bank National Association
601 2nd Avenue South
MPFP 0508
Minneapolis, Minnesota 55402-4302
Attn: John P. Crenshaw
Tel: (612) 973-0572

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Fax: (612) 973-0826

Farallon Debt Investors I, LLC1
c/o Farallon Capital Management, LLC
One Maritime Plaza, Suite 1325
San Francisco, California 94111
Attn: Ms. Meridee Moore
Ms. Kirsten Lynch
Tel: (415) 421-2132
Fax: (415) 421-2133

ING Baring (U.S.) Capital LLC2
135 E. 57th Street, 6th Floor
New York, New York 10022
Attn: Ms. Ann Sutton
Tel: (212) 409-1581
Fax: (212) 371-9295

Credit Suisse First Boston
Eleven Madison Avenue, 20th Floor
New York, New York 10010-3629
Attn: Jay Chall
Tel: (212) 325-9010
Fax: (212) 325-8320

Bear Stearns Investment Products, Inc.
245 Park Avenue, 4th Floor
New York, NY 10167
Attn: Mark A. Sorenson
Tel: (212) 272-7959
Fax: (212) 272-4844

Prudential Securities Credit Corp.
One Seaport Plaza
27th Floor
New York, NY 10292
Attn: Jeffrey French
Tel: (212) 214-7558
Fax: (212) 214-7678

Dresdner Bank AG,
New York & Grand Cayman Branches
75 Wall Street
New York, NY 10005
Attn: J. Curtin Beaudouin
Tel: (212) 429-2120
Fax: (212) 429-2524

PNC Bank, N.A.
500 West Jefferson Street
Suite 1100

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Louisville, Ky 40202
Attn: Janice Bolling
Tel: (502) 581-3112
Fax: (502) 581-3844

D. TERM LENDERS

The Bank of New York
One Wall Street, 17th Floor
New York, NY 10286
Attn: Robert A. Tweed
Tel: (212) 635-6465
Fax: (212) 635-6468

Allstate Life Insurance Company
3075 Sanders Road, Suite G3A
Northbrook, IL 60062-7127
Attn: Tom Napholz
Tel: (847) 402-7835
Fax: (847) 402-3092

KZH III LLC, f/k/a/
KZH Holding Corporation III
c/o The Chase Manhattan Bank
450 West 33rd Street - 15th Floor
New York, NY 10001
Attn: Virginia Conway
Tel: (212) 946-7575
Fax: (212) 946-7776

Tyler Trading3
100 North Tryon Street
NCI-007-06-07
Charlotte, NC 28255
Attn: Kelly C. Walker
Tel: (704) 388-8943
Fax: (704) 388-0648

Strata Funding Ltd.
c/o Deutsche Morgan Grenfell (Cayman) Limited
P.O. 10184 GT, Elizabethan Square
Grand Cayman, Cayman Islands
Attn: Director
Tel: (345) 949-8244
Fax: (345) 949-8178

Ceres Finance Ltd.
c/o Deutsche Morgan Grenfell (Cayman) Limited
P.O. 10184 GT, Elizabethan Square
Grand Cayman, Cayman Islands
Attn: Director

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Tel: (345) 949-8244
Fax: (345) 949-8178

Pacifica Partners I, L.P.4
c/o Imperial Credit Asset Management
150 S. Rodeo Drive, Suite 230
Beverly Hills, CA 90212
Attn: Mike Bacevich
Tel: (310) 246-3726
Fax: (310) 777-3026
LaSalle National Bank
135 South LaSalle Street
Chicago, Illinois 60603
Attn: Terry Keating
Tel: (312) 904-2689
Fax: (312) 904-2982

Allstate Insurance Company
3075 Sanders Road, Suite G3A
Northbrook, IL 60062-7127
Attn: Tom Napholz
Tel: (847) 402-7835
Fax: (847) 402-3092

Morgan Stanley Emerging Markets, Inc.5
1585 Broadway, 10th Floor
New York, New York 10036
Attn: James Morgan
Tel: (212) 761-4866
Fax: (212) 761-0592

Merrill Lynch, Pierce, Fenner & Smith Incorporated6
World Financial Center, 16th Floor
250 Vessey Street
New York, New York 10281
Attn: Brian Buttenmuller
Tel: (212) 449-4972
Fac: (212) 449-9435

1 By partial assignment from Lehman Commercial Paper, Inc., assignee from Wells Fargo Bank (Texas), N.A.
2 By partial assignment from (i) Lehman Commercial Paper, Inc., assignee from Wells Fargo Bank (Texas) N.A., and (ii) Bear Stearns Investment Products, Inc.
3 By assignment from NationsBank, N.A. (2 Notes)
4 By assignment from NationsBank, N.A.
5 By partial assignment from ML CLO XIX Sterling (Cayman) Ltd.

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6 By assignment of remaining interest from ML CLO XIX Sterling (Cayman) Ltd.

	Revolving Loan Commitment Amount			
	Short Term	Long Term	Aggregate	Revolving Loan Percentage
Revolving Lenders:				
NationsBank	$18,750,000	$56,250,000	$75,000,000	11.19402985%
Credit Suisse First Boston	$18,750,000	$56,250,000	$75,000,000	11.19402985%
U.S. Bank	$18,750,000	$56,250,000	$75,000,000	11.19402985%
Bank One	$12,500,000	$37,500,000	$50,000,000	7.46268657%
Bank United	$12,500,000	$37,500,000	$50,000,000	7.46268657%
Fleet Bank	$12,500,000	$37,500,000	$50,000,000	7.46268657%
Prudential Sec.	$12,500,000	$37,500,000	$50,000,000	7.46268657%
LaSalle	$11,250,000	$33,750,000	$45,000,000	6.71641791%
Bank of New York	$11,250,000	$33,750,000	$45,000,000	6.71641791%
Dresdner Bank	$8,750,000	$26,250,000	$35,000,000	5.22388060%
Comerica	$7,500,000	$22,500,000	$30,000,000	4.47761194%
Bear Stearns	$5,000,000	$15,000,000	$20,000,000	2.98507463%
Credit Lyonnais	$6,250,000	$18,750,000	$25,000,000	3.73134328%
Farallon Debt1	$4,750,000	$14,250,000	$19,000,000	2.83582090%
ING Baring2	$2,750,000	$8,250,000	$11,000,000	1.64179104%
PNC Bank	$3,750,000	$11,250,000	$15,000,000	2.23880597%
Total	$167,500,000	$502,500,000	$670,000,000	100.000000%

1 By partial assignment from Lehman Commercial Paper, Inc., assignee of Wells Fargo Bank (Texas), N.A.
2 By partial assignment from Lehman Commercial Paper, Inc., assignee of Wells Fargo Bank (Texas), N.A. ($1,500,000 ST and $4,500,000 LT); and by partial assignment from Bear Stearns Investment Products, Inc. ($1,250,000 ST and $3,750,000 LT).

	Term Loan Commitment Amount	Term Loan Percentage
Term Lenders:		
Pacifica Partners1	$10,000,000	14.8148148%
Morgan Stanley2	$3,000,000	4.4444444%
Merrill Lynch3	$7,000,000	10.3703704%
Tyler Trading4	$7,500,000	11.1111112%
KZH III LLC	$5,100,000	7.5555556%
Allstate Life Insurance Company	$5,000,000	7.4074074%
Allstate Insurance	$5,000,000	7.4074074%

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Company		
Bank of New York	$5,000,000	7.4074074%
Tyler Trading4	$5,000,000	7.4074074%
LaSalle Bank	$5,000,000	7.4074074%
Ceres	$4,950,000	7.3333333%
Strata	$4,950,000	7.3333333%
Total	$67,500,000	100.0%

1 By total assignment from NationsBank, N.A.
2 By partial assignment from ML CLO XIX Sterling
3 By assignment of remaining interest of ML CLO XIX Sterling
4 By assignment from NationsBank, N.A.

II. BORROWER

AMRESCO, INC.
700 N. Pearl Street
Suite 2400
Dallas, Texas 75201-7424
Attn: Treasurer
Fax No.: (214) 953-7828

with copy to:

AMRESCO, INC.
700 N. Pearl Street
Suite 2400
Dallas, Texas 75201-7424
Attn: General Counsel
Fax No.: (214) 953-7757

EXHIBIT D

GUARANTOR SUBSIDIARIES OF BORROWER
AS OF FEBRUARY 28, 1999

INITIAL GUARANTORS ON CREDIT AGREEMENT 8/12/98:

AFC EQUITIES INVESTORS, INC., f/k/a AFC EQUITIES, INC.
AFC EQUITIES MANAGEMENT, INC.
ALPINE, INC.
AMREIT HOLDINGS, INC.
AMREIT MANAGERS GP, INC.
AMRESCO ATLANTA INDUSTRIAL, INC.
AMRESCO BUILDERS GROUP, INC.
AMRESCO CAPITAL CONDUIT CORPORATION
AMRESCO CAPITAL LIMITED, INC.
AMRESCO CAPITAL, L.P.
AMRESCO CMF, INC.
AMRESCO COMMERCIAL FINANCE, INC.
AMRESCO CONSOLIDATION CORP.
AMRESCO EQUITY INVESTMENTS, INC.
AMRESCO EQUITY INVESTMENTS II, INC.
AMRESCO FINANCE AMERICA CORPORATION
AMRESCO FINANCIAL I, INC.
AMRESCO FINANCIAL I, L.P.
AMRESCO FUNDING CORPORATION

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AMRESCO FUNDING OF GEORGIA, L.P.
AMRESCO FUNDING INVESTORS, INC.
AMRESCO FUNDING MANAGEMENT, INC.
AMRESCO FUNDING MID-ATLANTIC, INC.
AMRESCO FUNDING PACIFIC, INC.
AMRESCO INDEPENDENCE FUNDING, INC.
AMRESCO-INSTITUTIONAL, INC.
AMRESCO INVESTMENTS, INC.
AMRESCO MANAGEMENT, INC.
AMRESCO MBS-II, INC.
AMRESCO MORTGAGE CAPITAL LIMITED-I, INC.
AMRESCO MORTGAGE SERVICES LIMITED, INC.
AMRESCO NEW ENGLAND, L.P.
AMRESCO NEW ENGLAND II, L.P.
AMRESCO NEW ENGLAND, INC.
AMRESCO NEW ENGLAND II, INC.
AMRESCO NEW HAMPSHIRE, INC.
AMRESCO NEW HAMPSHIRE, L.P.
AMRESCO OVERSEAS, INC.
AMRESCO PORTFOLIO INVESTMENTS, INC.
AMRESCO PRINCIPAL MANAGERS I, INC.
AMRESCO PRINCIPAL MANAGERS II, INC.
AMRESCO RESIDENTIAL CAPITAL MARKETS, INC.
AMRESCO RESIDENTIAL CREDIT CORPORATION
AMRESCO RESIDENTIAL MORTGAGE CORPORATION
AMRESCO RESIDENTIAL PROPERTIES, INC.
AMRESCO RHODE ISLAND, INC.
AMRESCO SERVICES, L.P.
AMRESCO VENTURES, INC.
AMRESCO 1994-N2, INC.
AMRESCO TEXAS, INC.
ASSET MANAGEMENT RESOLUTION COMPANY
BEI 1992 - N1, INC.
BEI 1993 - N3, INC.
BEI 1994 - N1, INC.
BEI MULTI-POOL, INC.
BEI PORTFOLIO INVESTMENTS, INC.
BEI PORTFOLIO MANAGERS, INC.
BEI REAL ESTATE SERVICES, INC.
BEI SANJAC, INC.
COMMONWEALTH TRUST DEED SERVICES, INC.
ENT MIDWEST, INC.
ENT NEW JERSEY, INC.
ENT SOUTHERN CALIFORNIA, INC.
EXPRESS FUNDING, INC.
FINANCE AMERICA CORPORATION
GRANITE EQUITIES, INC.
HOLLIDAY FENOGLIO FOWLER, L.P.
LIFETIME HOMES, INC.
MSPI, INC., f/k/a MARKETING SOLUTION PUBLICATIONS, INC.
MORTGAGE INVESTORS CORPORATION

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OAK CLIFF FINANCIAL, INC.
PRESTON HOLLOW ASSET HOLDINGS, INC.
QUALITY FUNDING, INC.
AMRESCO INSURANCE SERVICES, INC.,
f/k/a SAVE-MORE INSURANCE SERVICES, INC.
WHITE ROCK INVESTMENTS, INC.

ADDITIONAL GUARANTORS BY SUPPLEMENT DATED 2/28/99:

AFC EQUITIES, L.P.
AMREIT MANAGERS, L.P.
AMRESCO-MBS I, INC.
AMRESCO MORTGAGE CAPITAL, INC.
HF ACQUISITION SUB, INC.

EXHIBIT E

As of February 28, 1999

SCHEDULE V
List of Excluded Subsidiaries

Subsidiary	Net Worth	Total Capital Invested	Total Assets
AMRESCO Leasing Corporation	$344,260	$2,391,632	
AMRESCO Residential Securities Corporation	(60,787)	100,184	
AMRESCO Shell, Inc., f/k/a AMRESCO Securities Inc.	0	0	
AMRESCO Advisors, Inc.	1,137,637	6,340,642	
AMRESCO - MBS III, Inc.	10,687,674	8,985,430	
AFBT I, LLC	15,399,452	14,317,706	
AFBT II, LLC	2,917,430	2,977,433	
Scottsdale Inn, LLC	9,925,597	9,776,888	
AMRESCO Builders Funding Corp.	0	0	
11 South LaSalle, LLC	11,325,650	10,615,012	
Noble Building Investors, LLC	1,043,000	1,043,000	
Oakmont Land Three, L.P.	0	0	
ACLC Funding Corporation			
CLC Funding Corporation			
AMRESCO Securitized Net Interest Margin Trust 1999-1			
AMRESCO Funding Trust			
Independence Funding Holding Corporation			
Independence Funding Holding Company, L.L.C.			
AMREIT II, Inc.			
AMRESCO Commercial Mortgage			

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Funding I Corporation

Total	$__________	$__________

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AMRESCO, INC.

EXHIBIT 11 - COMPUTATION OF PER SHARE EARNINGS

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Basic:			
Net income (loss)	$(69,171,000)	$56,224,000	$31,332,000
Weighted average common shares outstanding	43,161,919	35,692,030	27,254,346
Contingently issuable shares	54,724	12,735	14,297
Restricted shares	(370,431)	(292,669)	(225,903)
Total	42,846,212	35,412,096	27,042,740
Earnings (loss) per share	$(1.61)	$1.59	$1.16
Diluted:			
Net income (loss)	$(69,171,000)	$56,224,000	$31,332,000
Effects of convertible debt net of taxes			2,196,000
Net income (loss)	$(69,171,000)	$56,224,000	$33,528,000
Weighted average common shares outstanding	42,846,212	35,412,096	27,042,740
Contingently issuable shares		292,669	225,903
Additional shares assuming conversion of convertible debentures to 3,600,000 of common stock in November 1995			3,600,000
Net effect of dilutive stock options based on the Treasury stock method using the average market price		958,712	905,125
Total	42,846,212	36,663,477	31,773,771
Earnings (loss) per share	$(1.61)	$1.53	$1.06

</TABLE>

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AMRESCO, INC.
Exhibit 21. - Subsidiaries of the Registrant

Name
11 South LaSalle, LLC
ACLC Funding Corp.
AFBT I, LLC
AFBT II, LLC
AFC Equities Investors, Inc.
AFC Equities Management, Inc.
AFC Equities, L.P.
AFLQ, S. de R.L. de C.V.
Alpine, Inc.
AM Servicios de Personal, S.A. de C.V.
AMREIT Holdings, Inc.
AMREIT Managers G.P., Inc.
AMREIT Managers, L.P.
AMRESCO 1994-N2, Inc.
AMRESCO Atlanta Industrial, Inc.
AMRESCO Builders Funding Corp.
AMRESCO Canada Inc.
AMRESCO Canada, L.P.
AMRESCO Capital Conduit Corporation
AMRESCO Capital Limited, Inc.
AMRESCO Capital, L.P.
AMRESCO CMF, Inc.
AMRESCO Commercial Finance, Inc.
AMRESCO Commercial Mortgage Funding I Corporation
AMRESCO Commercial Mortgage Funding, L.P.
AMRESCO de Mexico Equities, S.A. de C.V.
AMRESCO Equities Canada Inc.
AMRESCO Equity Investments II, Inc.
AMRESCO Equity Investments, Inc.
AMRESCO Finance America Corporation
AMRESCO Financial I, Inc.
AMRESCO Financial I, L.P.
AMRESCO Funding Canada Inc.
AMRESCO Germany I GmbH
AMRESCO Independence Funding, Inc.
AMRESCO Insurance Services, Inc.
AMRESCO Investments, Inc.
AMRESCO Japan, Inc.
AMRESCO Jersey Ventures Limited
AMRESCO Leasing Corporation
AMRESCO Management, Inc.
AMRESCO MBS-II, Inc.
AMRESCO Mexico S.A. de C.V.

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AMRESCO Mortgage Capital Limited-I, Inc.
AMRESCO Mortgage Capital, Inc.
AMRESCO Mortgage Services Limited, Inc.
AMRESCO New England II, Inc.
AMRESCO New England II, L.P.
AMRESCO New England, Inc.
AMRESCO New England, L.P.
AMRESCO New Hampshire, Inc.
AMRESCO New Hampshire, L.P.
AMRESCO Overseas, Inc.
AMRESCO Portfolio Investments, Inc.
AMRESCO Principal Managers I, Inc.
AMRESCO Principal Managers II, Inc.
AMRESCO Residential Capital Markets, Inc.
AMRESCO Residential Mortgage Corporation
AMRESCO Residential Properties, Inc.
AMRESCO Residential Securities Corporation
AMRESCO Retail Ventures I Limited
AMRESCO Retail Ventures II Limited
AMRESCO Securities, Inc.
AMRESCO Services Canada Inc.
AMRESCO Services, L.P.
AMRESCO UK Holdings Limited
AMRESCO UK Limited
AMRESCO UK Ventures II Limited
AMRESCO UK Ventures Limited
AMRESCO Ventures, Inc.
AMRESCO-Institutional, Inc.
AMRESCO-MBS I, Inc.
AMRESCO-MBS III, Inc.
AMRESCO/CPC Joint Venture
BCS Asset Management Corporation
BCS Management Corp. I
BEI 1992-N1, Inc.
BEI 1993-N3, Inc.
BEI 1994-N1, Inc.
BEI Multi-Pool, Inc.
BEI Portfolio Investments, Inc.
BEI Portfolio Managers, Inc.
BEI SanJac, Inc.
BEI/RITZ Joint Venture #1
BEI/RITZ Joint Venture #2
CLC Funding Corp.
Commonwealth Trust Deed Services, Inc.
Express Funding, Inc.
Finance America Corporation
Granite Equities, Inc.
HF Acquisition Sub, Inc.
Holliday Fenoglio Fowler, L.P.
Independence Funding Holding Company, LLC
Independence Funding Holding Corporation

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Kennard Court (Home Reversions) Limited
Leadenhall Residential II Limited
Leadenhall Residential Limited
Mortgage Investors Corporation
Noble Building Investors, LLC
Oak Cliff Financial, Inc.
Oakmont Land Three, L.P.
Old Midland House Limited
PLT (Brampton) Limited
PLT (Newcastle Development) Limited
PLT (Property) Limited
PLT Limited
PLT Nominees Limited
Preston Hollow Asset Holdings, Inc.
Quality Funding, Inc.
Scottsdale Inn, L.L.C.
The PavilionAsia Co., Ltd.
Undiscovered Managers, LLC

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INDEPENDENT AUDITORS' CONSENT

The Board of Directors
AMRESCO, INC.

We consent to the incorporation by reference in Registration Statements No. 333-57635, No. 333-62145 and No. 333-63543 on Form S-3 and Registration Statements No. 333-62143 and No. 333-66989 on Form S-8 of our report dated February 9, 1999, appearing in this Annual Report on Form 10-K of AMRESCO, INC. for the year ended December 31, 1998.

\S\ Deloitte & Touche LLP

Dallas, Texas

March 25, 1999

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<TABLE> <S> <C>

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<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	DEC-31-1998
<CASH>	66,442
<SECURITIES>	0
<RECEIVABLES>	87,316
<ALLOWANCES>	696
<INVENTORY>	0
<CURRENT-ASSETS>	0
<PP&E>	39,992
<DEPRECIATION>	16,769
<TOTAL-ASSETS>	2,918,710
<CURRENT-LIABILITIES>	0
<BONDS>	1,595,550
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	2,456
<OTHER-SE>	582,951
<TOTAL-LIABILITY-AND-EQUITY>	2,918,710
<SALES>	0
<TOTAL-REVENUES>	526,804
<CGS>	0
<TOTAL-COSTS>	0
<OTHER-EXPENSES>	366,506
<LOSS-PROVISION>	29,634
<INTEREST-EXPENSE>	232,497
<INCOME-PRETAX>	(101,833)
<INCOME-TAX>	(32,662)
<INCOME-CONTINUING>	(69,171)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(69,171)
<EPS-PRIMARY>	(1.61)
<EPS-DILUTED>	(1.61)

</TABLE>

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<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>	<C>	<C>	<C>	<C>
<PERIOD-TYPE>	12-MOS	12-MOS	3-MOS	6-MOS	9-MOS
<FISCAL-YEAR-END>	DEC-31-1996	DEC-31-1997	DEC-31-1997	DEC-31-1997	DEC-31-1997
<PERIOD-END>	DEC-31-1996	DEC-31-1997	MAR-31-1997	JUN-30-1997	SEP-30-1997
<CASH>	29,046	25,866	33,577	23,148	31,346
<SECURITIES>	34,190	0	0	0	0
<RECEIVABLES>	13,854	19,638	15,306	15,369	21,514
<ALLOWANCES>	1,611	455	1,796	2,832	3,191
<INVENTORY>	0	0	0	0	0
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