

# PMC COMMERCIAL TRUST /TX

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 03/29/96 for the Period Ending 12/31/95

Address	17950 PRESTON RD SUITE 600 DALLAS, TX 75252
Telephone	972-349-3200
CIK	0000908311
Symbol	PCC
SIC Code	6798 - Real Estate Investment Trusts
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 1995

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number: 0-22148*

## PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction of  
incorporation or organization)

75-6446078  
(I.R.S. Employer  
Identification No.)

17290 PRESTON ROAD, 3RD FLOOR, DALLAS TX 75252  
(Address of principal executive offices)

(214) 380-0044  
(Registrant's telephone number)

### Securities registered pursuant to Section 12(b) of the Act: COMMON SHARES OF BENEFICIAL INTEREST, \$.01 PAR VALUE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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 the 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. ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Shares of Beneficial Interest on February 29, 1996 as reported on the American Stock Exchange, was approximately \$57 million. Common Shares of Beneficial Interest held by each officer and director and by each person who owns 10% or more of the outstanding Common Shares of Beneficial Interest have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 29, 1996, Registrant had outstanding 3,522,974 Common Shares of Beneficial Interest.

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 23, 1996 are incorporated by reference into part III.

**PMC COMMERCIAL TRUST**  
**FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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## **PART I**

### **ITEM 1. BUSINESS OF THE COMPANY**

#### **GENERAL**

PMC Commercial Trust (the "Company") is a commercial lender which lends principally to small business owners in the lodging industry. The Company also targets commercial real estate, service, retail and manufacturing industries. The Company was formed on June 4, 1993 and commenced operations on December 28, 1993 as a real estate investment trust ("REIT") pursuant to the Texas Real Estate Investment Trust Act. The Company was created primarily to originate loans which are secured by first liens on real estate and which meet the Company's underwriting criteria. The Company generates income from interest payments and other related fee income on collateralized business loans. The Company intends to borrow money for investment leverage in an amount up to 200% of its common beneficiaries' equity. The Company's investments are managed pursuant to an investment management agreement with PMC Advisers, Inc. ("PMC Advisers" or the "Investment Manager"), a wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital"), an investment company that has elected to be a business development company under the Investment Company Act of 1940 and is an affiliate of the Company. The Company's common stock is currently traded on the American Stock Exchange under the symbol "PCC".

PMC Capital primarily engages in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the Small Business Administration (the "SBA"). PMC Capital was incorporated in 1979 and completed its initial public offering in 1983. PMC Capital's common stock is currently traded on the American Stock Exchange under the symbol "PMC".

#### **OPERATIONS**

The Company primarily originates loans to small businesses that (i) exceed the net worth, asset, income, number of employees or other limitations applicable to the SBA programs utilized by PMC Capital or (ii) are in excess of \$1.1 million without regard to SBA eligibility requirements. Such loans ("Primary Investments") are primarily collateralized by first liens on real estate, personal guarantees by the principals of the entities obligated on the loans, and are subject to the Company's underwriting criteria.

Prospective borrowers are evaluated based upon whether they (i) provide first lien real estate mortgages on loans which generally do not exceed 70% of the lesser of appraised value or cost, (ii) provide proven management capabilities, (iii) meet certain criteria with respect to historical or projected debt coverage and (iv) have principals with satisfactory credit histories who provide personal guarantees, as applicable.

Pursuant to management's investment policies, at least 75% of the Company's assets will be utilized to fund the Primary Investments. Through December 31, 1995, 99% of assets have been used to fund Primary Investments. In addition, the Company may utilize a maximum of 25% of its assets to (i) purchase from the Federal Deposit Insurance Corporation and other sellers (collectively, the "Agencies"), loans on which payments are current at the time of the Company's commitment to purchase such loans and which meet the Company's underwriting criteria, (ii) invest in other commercial loans collateralized by real estate and (iii) invest in real estate (collectively, the "Other Investments") provided that such Other Investments do not affect the ability of the Company to

maintain its qualification as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). Management of the Company has broad discretion in evaluating and pursuing investment opportunities.

## **LOAN ORIGINATIONS AND UNDERWRITING**

To date, a significant portion (96%) of the Primary Investments have been to small business owners in the lodging industry. In addition, the Company may lend to small business owners in the commercial office building, food service, retail and manufacturing industries. Many of the Company's current borrowers are franchisees of national franchises. The franchisor provides training, site selection and credit reviews of the franchisee. The Company also conducts its own independent credit analysis prior to originating a loan. The Company operates from the existing offices of the Investment Manager in Texas, Florida and Georgia and management anticipates that the Company will conduct operations from any future office of the Investment Manager. The Investment Manager receives loan referrals from PMC Capital and solicits loan applications on behalf of the Company from borrowers through personal contacts, attendance at trade shows, meetings and correspondence with local chambers of commerce, direct mailings, advertisements in trade publications and other marketing methods. The Company is not responsible for any compensation to PMC Capital for referrals. In addition, the Company has generated a significant percentage of loans through referrals from lawyers, accountants, real estate brokers, loan brokers and existing borrowers. In some instances the Company may make payments to non-affiliated individuals who assist in generating loan applications, with such payments generally not exceeding 1% of the principal amount of the loan. Through December 31, 1995, the Company has not made or committed to any such payment.

The Investment Manager, PMC Capital and the Company have entered into a loan origination agreement designed to avoid conflicts of interest regarding the loan origination function. The agreement requires that loans which meet the Company's underwriting criteria be funded by the Company, provided that funds are available. PMC Capital will fund: (i) loans in an original principal amount not exceeding \$1.1 million which qualify for the SBA Section 7(a) or small business investment company ("SBIC") loan programs utilized by its subsidiaries. Generally, the Company originates loans to borrowers who exceed one or more of the limitations applicable to the SBA Section 7(a) and SBIC loan programs utilized by PMC Capital's subsidiaries. The Company will not originate loans in principal amounts less than \$1.1 million which qualify for SBA Section 7(a) or SBIC loan programs unless PMC Capital is unable to originate such loans because of insufficient available funds.

All prospective Primary Investments are considered by the Investment Manager for investment by the Company. In the event that the Company does not have funds available, origination opportunities presented to the Company may be originated by PMC Capital or its subsidiaries.

Upon receipt of a completed loan application, the Investment Manager's credit department (which is also the credit department for PMC Capital) conducts an analysis of the loan which may include either a third-party appraisal or valuation by the Investment Manager of the property collateralizing the loan to assure compliance with loan-to-value ratios, a site inspection generally by a member of senior management of the Investment Manager, a review of the borrower's business experience and credit history, and an analysis of debt service coverage and debt-to-equity ratios.

The Investment Manager's loan committee (also the loan committee of PMC Capital), which is comprised of members of the Company's senior management, makes a determination with respect to each loan application. The Investment Manager's loan committee generally meets on a daily basis and either approves the loan application as submitted, approves the loan application subject to additional conditions or rejects the loan application. After a loan is approved, the credit department will prepare and submit to the borrower a good faith estimate and cost sheet detailing the anticipated costs of the financing. The closing department reviews the loan file and assigns the loan to the Company's counsel, the fees of whom are paid by the borrower. Prior to any funding of a loan, the closing department is provided with the loan documentation from the closing attorney which is reviewed prior to authorizing disbursement.

After a loan is closed, the Investment Manager's servicing department (also the servicing department of PMC Capital) is responsible on an ongoing basis for: (i) obtaining all financial information required by the loan documents, (ii) verifying that adequate insurance remains in effect, (iii) refiling Uniform Commercial Code financing statements evidencing the loan, if required, (iv) collecting and applying loan payments and (v) monitoring the collection activities on delinquent accounts.

## **LOAN PORTFOLIO CHARACTERISTICS**

At December 31, 1995, the Company had 63 loans outstanding with an aggregate principal amount outstanding (excluding discount) of \$60,233,000. The Company's loan portfolio has the following characteristics:

- a. All loans are performing in accordance with the terms of their loan agreements. At December 31, 1995, none of the loans was 30 days or more delinquent.
- b. Borrowers are principally in the lodging industry (96% as of December 31, 1995). The remainder is comprised of two loans in the commercial office rental market.
- c. The Company has not loaned more than 10% of its assets to any single borrower.
- d. The principal amount of loans to a borrower range from \$300,000 to \$2.5 million.
- e. All loans are secured by first liens on business real property. Other additional properties of certain borrowers or guarantors have been used as additional collateral in some instances.
- f. All loans originated are guaranteed by the principals of the borrower.
- g. The loan amounts are generally equal to or less than 70% of the fair value or cost of the primary real estate collateral. When necessary, credit enhancements, such as additionally collateral or third party guarantees are obtained to assure a maximum of 70% loan to value ratio.
- h. All originated loans provide for interest payments at fixed rates.

i. All originated loans have original maturities ranging from 5 to 20 years which may be extended by the borrower until such date as the loan is fully amortized if the original maturity date of the loan is prior to the stated maturity.

j. Originated loans provide for scheduled amortization (ranging from 5 to 20 years), have balloon payment requirements and entitle borrowers to prepay all or part of the principal amount, subject to a prepayment penalty.

## **LENDING ACTIVITIES**

During the years ended December 31, 1995 and 1994 the Company originated loans to 30 and 38 corporations, partnerships or individuals for approximately \$31.7 and \$33.6 million and collected commitment fees of approximately \$546,000 and \$1.3 million, respectively.

The Company purchased loans with a face value of \$1,502,005 for \$1,325,113 from the Agencies during the year ended December 31, 1994. The discount on these loans is netted against loans receivable and is being amortized over the remaining life of the loans. During the years ended December 31, 1995 and 1994, approximately \$26,000 and \$22,000 of the discount was recognized as interest income, respectively. No loans were purchased during the year ended December 31, 1995.

Approximately 32% and 12% of the Company's loan portfolio as of December 31, 1995 consisted of loans to borrowers in Texas and Maryland, respectively. No other state had a concentration of 10% or greater. At December 31, 1994, approximately 38%, 11%, and 10% of the Company's loan portfolio consisted of loans to borrowers in Texas, Maryland and Pennsylvania, respectively. The Company's loan portfolio was approximately 96% and 92% concentrated in the lodging industry at December 31, 1995 and 1994, respectively.

When originating a loan, the Company charges a commitment fee. In accordance with Statement of Financial Accounting Standards No. 91, this non-refundable fee less direct costs associated with the origination, is deferred and included as a reduction of the carrying value of loans receivable. These net deferred commitment fees are being recognized as an adjustment of yield over the life of the related loan. The Company had \$974,971 and \$664,962 in net unamortized deferred commitment fees at December 31, 1995 and 1994, respectively.

## **DELINQUENCY AND COLLECTIONS**

To date, the Company has had one loan delinquent for longer than 30 days. Such loan was current as of December 31, 1995. If a borrower fails to make a required monthly payment, the borrower will generally be notified by mail after 10 days. If the borrower has not made full payment within 15 days, a late fee will generally be assessed. If the borrower has not responded or made full payment within 20 days after the loan becomes delinquent, a second notification letter will be sent. Following such notification, a collection officer will initiate telephone contact. If the borrower has not responded or made full payment within 30 days after the loan becomes delinquent, a third notification letter will be sent and follow-up telephone contact will be made by the collection officer. In the event a borrower becomes 45 days delinquent, a demand letter will be sent to the borrower requiring that the loan be brought current within 10 days. After the expiration of such 10 day period, the Company may proceed with legal action. The Company

generally follows a practice of discontinuing the accrual of interest income on loans which are in arrears as to interest payments for a period in excess of 60 days. The Company will deliver a default notice and begin foreclosure and liquidation proceedings when it determines that pursuit of these remedies is the most appropriate course of action. The Company continually monitors loans for possible exposure to loss. In its analysis, the Company reviews various factors, including the value of the collateral securing the loan and the borrower's payment history. Based upon this analysis, a loan loss reserve will be established on a case by case basis. Through December 31, 1995, no loan loss reserve has been established.

## **SBA SECTION 504 PROGRAM**

The Company participates as a private lender in the SBA Section 504 program (the "Program"). Participation in the Program offers an opportunity to enhance the collateral status of loans. The Program provides assistance to small business enterprises in obtaining subordinate long-term financing by guaranteeing debentures available through certified development companies ("CDCs") for the purpose of acquiring land, buildings, machinery and equipment and for modernizing, renovating or restoring existing facilities and sites. A typical finance structure for a Program project would include a first mortgage covering 50% of the project cost from a private lender such as the Company, a second mortgage obtained through the Program covering up to 40% of the project cost and a contribution of at least 10% of the project cost by the principals of the small business enterprise being assisted. The Company generally requires at least 15% of the equity in a project to be contributed by the principals of the borrower. The first mortgage is not guaranteed by the SBA. Although the total size of projects utilizing the Program guarantees are unlimited, the maximum amount of subordinated debt in any individual project generally is \$750,000 (or \$1 million for certain projects). Typical project costs range in size from \$500,000 to \$2.5 million. A business eligible for financing pursuant to the Program must: (i) be a for-profit corporation, partnership or proprietorship, (ii) not exceed \$6 million in net worth and (iii) not exceed \$2 million in average net income (after Federal income taxes) for the previous two years. Financing pursuant to the Program cannot be used for working capital or inventory, consolidating or repaying debt or financing a plant not located in the U.S. or its possessions. As of December 31, 1995, the Company had \$1,735,888 outstanding which is anticipated to be paid off by permanent subordinated financing provided by the Program.

## **OTHER INVESTMENTS**

The Company has purchased from the Agencies two loans secured by first liens on real estate at a discount. The Investment Manager has selected and evaluated such loans using substantially the same underwriting criteria applicable to originated loans. When purchasing loans from the Agencies, underwriting information received by the Investment Manager, such as loan applications, financial statements, property appraisals and other loan documentation that was developed by the original lending institution may be outdated. In such cases, the Investment Manager will seek to supplement this information with additional data such as credit reports on borrowers, geographical analysis, industry demographics, economic data and in selected cases, current property appraisals or site visits. Prohibitions by sellers against contacting borrowers might limit the Investment Manager's ability to obtain accurate current information about borrowers and the Investment Manager may have to rely on the original underwriting information with limited ability to verify the information. These loans are currently performing according to their terms.



While the Company has not done so to date, it may also finance real estate investors. Such loans would be collateralized by a lien on the real estate acquired or other real estate owned by the borrower or its principals. The personal guaranty of one or more of the principals will typically be obtained. The loans will generally carry a fixed rate of interest and have maturities of five to 20 years from the date of issuance. In some instances, there may be earlier maturity dates or dates on which the interest rate may be modified. Most loans will provide for scheduled monthly amortization and have a balloon payment requirement. In addition, the Company may also purchase real estate to hold in the Company's investment portfolio.

## **BORROWER ADVANCES**

The Company finances a number of projects during the construction phase. At December 31, 1995, the Company was in the process of monitoring construction projects with approximately \$15.9 million in total commitments, of which \$9.2 million has been funded. As part of the monitoring process, the Company receives funds from borrowers and releases the funds upon presentation of appropriate supporting documentation thus verifying that the borrower's cash equity is utilized for its intended purpose. At December 31, 1995, of the funds received from borrowers, \$579,000 is to be disbursed on behalf of borrowers and is included as a liability in the accompanying balance sheets. The Company will use cash, cash equivalents or availability under its revolving credit facility to fund these obligations.

## **LOAN COMMITMENTS**

The Company had approximately \$7.1 million of loan commitments outstanding to six small business concerns at December 31, 1995. The weighted average interest rate on these loan commitments at December 31, 1995 was 10.95%. In addition, the Company had approximately \$6.5 million of loan commitments outstanding on 12 partially funded construction loans and \$1.9 million of loan commitments outstanding on three SBA Section 504 program loans. To the extent the Company has available funds, an additional \$11.9 million in commitments made by the Investment Manager were designated for the Company at December 31, 1995, with a weighted average interest rate of 10.74%. It is anticipated that these loans will be funded by the Company.

These commitments are made in the ordinary course of the Company's business and in management's opinion, are generally on the same terms as those to existing borrowers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources".

## **TAX STATUS**

The Company has elected to be treated as a REIT for Federal income tax purposes under Section 856(c) of the Code. As a REIT, the Company generally is not subject to Federal income tax (including any applicable alternative minimum tax) to the extent it distributes at least 95% of its REIT taxable income to shareholders. REITs are subject to a number of organizational and operational requirements under the Code. The Company may be subject to certain state and local taxes on its income and property.

## **INVESTMENT MANAGER**

The investments of the Company are managed by PMC Advisers. Pursuant to an investment management agreement between the Company and the Investment Manager (the "Investment Management Agreement"), the Company is obligated to pay to the Investment Manager, quarterly in arrears, a base fee (the "Base Fee") consisting of a quarterly servicing fee of 0.125% of the Average Quarterly Value of All Assets, representing on an annual basis approximately 0.5% of the Average Annual Value of All Assets, and a quarterly advisory fee of 0.25% of the Average Quarterly Value of All Invested Assets, representing on an annual basis approximately 1% of the Average Annual Value of All Invested Assets. In addition, for each calendar year during which the Company's annual Return on Average Equity Capital after deduction of the Base Fee (the "Actual Return") exceeds 6.69% (the "Minimum Return"), the Company will pay to the Investment Manager, as incentive compensation, an additional advisory fee (the "Annual Fee") equal to the product determined by multiplying the Average Annual Value of All Invested Assets by a percentage equal to the difference between the Actual Return and the Minimum Return, up to a maximum of 1% per annum. The Annual Fee will be earned only to the extent that the annual Return on Average Common Equity Capital after deduction of the Base Fee and Annual Fee is at least equal to the Minimum Return. All such advisory fees will be reduced to 50% with respect to the value of Invested Assets that exceed common beneficiaries' equity as a result of leverage or the issuance of preferred shares of beneficial interest.

Pursuant to the Investment Management Agreement, the Company incurred an aggregate of \$1,189,000 and \$429,000 in management fees for the years ended December 31, 1995 and 1994, respectively. Of the total management fees paid or payable to the Investment Manager as of December 31, 1995 and 1994, \$244,000 and \$71,500, respectively, has been offset against commitment fees as a direct cost of originating loans. Pursuant to the Investment Management Agreement, advisory fees of approximately \$58,000 were waived by the Investment Manager through June 30, 1994.

## **COMPETITION**

The Company believes its primary competitors are banks, financial institutions and other lending companies. Additionally, there are lending programs which have been established by national franchisors in the lodging industry. Many of these entities may have greater financial and larger managerial resources than the Company. The Company believes that it competes with such entities based on: (i) the interest rates, maturities and payment schedules offered to borrowers, (ii) the reputation, experience and marketing ability of officers of the Investment Manager, (iii) the timely credit analysis and decision-making processes followed by the Investment Manager and (iv) the renewal options available to borrowers.

## **INVESTMENT POLICIES**

The Company's principal investment objective is to obtain current income from interest payments and other related fee income on its Invested Assets for distribution to shareholders. The Company invests in accordance with underwriting criteria established by the Investment Manager with the intention of creating a portfolio of investments while preserving the capital base of the Company and generating income for distribution to the Company's shareholders. The Company's investments are primarily intended to be held to maturity. The Company's investments and plan

of operation are restricted by tax provisions applicable to REITs. These tax provisions include restrictions on the ability to sell investments for a gain, therefore, the Company has a low turnover rate with respect to its investments.

## **RECENT DEVELOPMENT**

On March 12, 1996, a special purpose affiliate of the Company, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership formed on March 7, 1996 (the "Partnership"), completed a private placement of \$29,500,000 of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Company owns, directly or indirectly, all of the partnership interests of the Partnership. The Notes, issued at par, which mature in 2016 and bear interest at the rate of 6.72% per annum, are collateralized by approximately \$39.7 million of loans contributed by the Company to the Partnership. In connection with this private placement, the Notes were given a rating of "AA" by Duff and Phelps Credit Rating Co.. The loans were originated or purchased by the Company in accordance with the Company's lending strategy and underwriting criteria. The Partnership has the exclusive obligation for the repayment of the Notes, and the holders of the Notes have no recourse to the Company or its assets in the event of nonpayment. The net proceeds from this issuance of the Notes (approximately \$27.1 million after giving effect to costs of \$500,000 and a \$1.9 million deposit held by the trustee as collateral) were distributed to the Company in accordance with its partnership interest in the Partnership. The Company used such proceeds to pay down outstanding borrowings under the Company's credit facility and intends to make additional loans in accordance with its lending criteria.

## **EMPLOYEES**

The Company has no employees. All personnel required for the Company's operations are provided by the Investment Manager.

## **ITEM 2. PROPERTIES**

The Company's operations are conducted in the offices of the Investment Manager in Texas, Florida and Georgia. Rental payments incurred are paid by the Investment Manager pursuant to the Investment Management Agreement.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company is involved from time to time in routine litigation incidental to its business. The Company does not believe that the current proceedings will have a material adverse effect on the results of operations or financial condition of the Company.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of shareholders during the last quarter of the year ended December 31, 1995.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER

#### MATTERS

During the years ended December 31, 1995 and 1994, the price of the Company's shares of beneficial interest ("Shares") fluctuated between \$11.25 per share and \$17.13 per share, as reported on the Nasdaq National Market (through February 1, 1995) and the American Stock Exchange ("AMEX") thereafter, under the symbol "PCC".

1995	High	Low
-----	-----	-----
First Quarter	\$ 14.00	\$ 11.75
Second Quarter	\$ 15.13	\$ 12.25
Third Quarter	\$ 15.13	\$ 13.75
Fourth Quarter	\$ 17.13	\$ 13.88

  

1994	High	Low
-----	-----	-----
First Quarter	\$ 15.25	\$13.50
Second Quarter	\$ 15.38	\$13.25
Third Quarter	\$ 15.00	\$13.50
Fourth Quarter	\$ 14.25	\$11.25

As of February 29, 1996 there were approximately 450 shareholders of record of the Shares with a market price of \$16.75 per share.

The Company declared regular dividends of \$0.24 per share for shareholders of record on April 29, July 29, and October 31, 1994, and \$0.28 per share on December 30, 1994. In addition, the Company declared a \$0.02 extra year end dividend to shareholders of record on December 30, 1994. During 1995, the Company declared dividends as follows:

Quarter	Type	Record Date	Amount
-----	-----	-----	-----
First Quarter	Regular	March 31, 1995	\$0.300
Second Quarter	Regular	June 30, 1995	0.315
Third Quarter	Regular	September 29, 1995	0.330
Fourth Quarter	Regular	December 29, 1995	0.355
Fourth Quarter	Extra	December 29, 1995	0.080
			-----
			\$1.380
			=====

## ITEM 6. SELECTED FINANCIAL DATA

The following summary of Selected Financial Data of the Company should be read in conjunction with the financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of the Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The selected financial data below provides information about the Company's financial history and is derived from the audited financial statements.

### Operating Data

		Years Ended December 31,		Period From
		1995	1994	June 4, 1993 (date of inception) to December 31, 1993
Total Revenues . . . . .	\$	6,230,415	\$ 3,690,772	\$ 15,717
Advisory and Servicing Fees, net . . . . .	\$	945,720	\$ 357,311	-
Net Income . . . . .	\$	4,896,024	\$ 3,200,142	\$ 15,152
Cash Dividends Declared . . . . .	\$	4,775,819	\$ 3,513,721	-
Dividends Per Share . . . . .	\$	1.38	\$ 1.02	-
Net Income Per Share . . . . .	\$	1.42	\$ 0.93	\$ 0.01
Loans Funded . . . . .	\$	31,711,230	\$ 34,982,484	\$ 3,119,190
Weighted Average Shares Outstanding . . . . .		3,451,091	3,430,009	3,099,530

At End of Period		December 31,		
		1995	1994	1993
Loans Receivable . . . . .	\$	59,129,536	\$ 32,693,752	\$ 3,119,190
Cash Equivalents and Government Securities . . . . .	\$	173,679	\$ 18,809,314	\$ 39,984,071
Total Investments . . . . .	\$	59,303,215	\$ 51,503,066	\$ 43,103,261
Total Assets . . . . .	\$	59,797,275	\$ 51,784,521	\$ 43,153,442
Notes Payable . . . . .	\$	7,920,000	-	-
Beneficiaries' Equity . . . . .	\$	48,183,032	\$ 47,440,401	\$ 42,941,230
Number of Common Shares of Beneficial Interest Outstanding . .		3,491,716	3,444,530	3,099,530

### Ratios

Return on Average Assets (1) . . . . .	8.8%	6.5%	- (3)
Return on Average Common Beneficiaries' Equity (2) . . . . .	10.2%	6.9%	- (3)

(1) Based on Average Annual Value of All Assets.

(2) Based on the total beneficiaries equity on the first day of the year and on the last day of each quarter of such year, divided by five.

(3) Not applicable due to initial period of operations which commenced in December 1993.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OVERVIEW**

The Company was incorporated in June 1993 and had no operations prior to completion of its initial public offering (the "IPO") on December 28, 1993. Accordingly, there are no comparable 1993 results to the year ended December 31, 1994. The net proceeds to the Company from the IPO were \$47,738,828, including over-allotment options.

During the year ended December 31, 1995, the Company originated and funded \$31.7 million of loans, all to corporations and individuals operating in the lodging industry. During the year ended December 31, 1994, the Company originated and funded or purchased loans with a face value of \$35.2 million. Of these loans, approximately \$32.5 million (92%) were to corporations and individuals operating in the lodging industry. As of December 31, 1995, the total portfolio outstanding was \$60.2 million (\$59.1 million after reductions for loans purchased at a discount and deferred commitment fees) with a weighted average contractual interest rate of approximately 11.2%. The weighted average contractual interest rate does not include the effects of the amortization of discount on purchased loans or commitment fees on funded loans. Each of these loans is collateralized by first liens on real estate and are guaranteed, for all but one loan, by the principals of the businesses financed. Included in funded loans are \$1.7 million which have been advanced pursuant to the SBA 504 program. Interest rates charged on such advances are comparable to those which are customarily charged by the Company.

### **CERTAIN ACCOUNTING CONSIDERATIONS**

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

The Company follows the accounting practices prescribed by the American Institute of Certified Public Accountants - Accounting Standards Division in Statement of Position 75-2 "Accounting Practices of Real Estate Investment Trusts" ("SOP 75-2"). In accordance with SOP 75-2, a loan loss reserve is established based on a determination, through an evaluation of the recoverability of individual loans, by the Board of Trust Managers when significant doubt exists as to the ultimate realization of the loan. To date, no loan loss reserves have been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgement and considers the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may require the establishment of significant additional loan loss reserves. At such time as determination is made that there exists significant doubt as to the ultimate realization of a loan, the effect to operating results may be material.

## RESULTS OF OPERATIONS

### YEAR ENDED DECEMBER 31, 1995 COMPARED TO THE YEAR ENDED

#### DECEMBER 31, 1994

The net income of the Company for the years ended December 31, 1995 and 1994, was \$4.9 million and \$3.2 million, \$1.42 and \$0.93 per share, respectively.

Interest income - loans increased by \$3.3 million (143%) from \$2.3 million for the year ended December 31, 1994, to \$5.6 million for the year ended December 31, 1995. This increase was primarily attributable to the reallocation of the Company's initial investment of the proceeds of the IPO in cash and U.S. Government securities to higher-yielding loans to small businesses. The average invested assets in loans to small businesses increased by \$27.9 million (148%) from \$18.9 million during the year ended December 31, 1994, to \$46.8 million during the year ended December 31, 1995. The average yields on loans for the years ended December 31, 1995 and 1994 were approximately 12.1% and 13.2%, respectively. Interest income - loans includes interest earned on loans, the accretion of discount on purchased loans (approximately \$26,000 and \$22,000 during the years ended December 31, 1995 and 1994, respectively) and the accretion of deferred commitment fees (approximately \$197,000 and \$166,000 during the years ended December 31, 1995 and 1994, respectively.)

Interest and dividends - other investments decreased by \$875,000 (73%), from \$1.2 million during the year ended December 31, 1994, to \$325,000 during the year ended December 31, 1995. This decrease was due to the reduction in funds available for short-term investments. The proceeds from the IPO were invested in government securities and money market funds until Primary Investments were identified and funded. The average short-term investments of the Company decreased by \$25.2 million (81%) from \$31.2 million during the year ended December 31, 1994, to \$6.0 million during the year ended December 31, 1995. The average yields on short-term investments during the years ended December 31, 1995 and 1994 were approximately 5.5% and 3.9%, respectively.

Other income increased by \$115,000 (64%) from \$180,000 during the year ended December 31, 1994, to \$295,000 during the year ended December 31, 1995. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment penalties, (iii) late fees and other loan fees and (iv) other miscellaneous collections. The increase was primarily due to construction hotel/motel projects in process increasing causing an increase of \$111,000 in construction monitoring fees recognized as income from \$35,000 during the year ended December 31, 1994, to \$146,000 during the year ended December 31, 1995.

Expenses consisted primarily of the servicing and advisory fees paid to PMC Advisers. The operating expenses borne by the Investment Manager include any compensation to the Company's officers (other than stock options) and the cost of office space, equipment and other personnel required for the Company's day-to-day operations. The expenses paid by the Company include transaction costs incident to the acquisition and disposition of investments, regular legal and auditing fees and expenses, the fees and expenses of the Company's Independent Trust Managers, the costs of printing and mailing proxies and reports to shareholders and the fees and expenses of the Company's custodian and transfer agent, if any. The Company, rather than the Investment Manager, will also be required to pay expenses associated

with any litigation and other extraordinary or nonrecurring expenses. Pursuant to the Investment Management Agreement, the Company incurred an aggregate of \$1,189,000 in management fees for the year ended December 31, 1995. Of the total management fees paid or payable to the Investment Manager during the year ended December 31, 1995, \$244,000 has been offset against commitment fees as a direct cost of originating loans. Investment management fees were \$429,000 for the year ended December 31, 1994. The advisory fees for the six month period ended June 30, 1994 were waived by the Investment Manager. Of the advisory and servicing fees paid or payable to the Investment Manager during the year ended December 31, 1994, \$71,500 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees of \$760,000 (prior to offsetting direct costs of originating loans), or 177%, is primarily due to the increase in the average invested assets increasing from \$18.9 million to \$46.8 million and average total assets increasing from \$49.0 million to \$53.9 million.

Legal and accounting fees increased by \$38,000 (115%) from \$33,000 during the year ended December 31, 1994, to \$71,000 during the year ended December 31, 1995. This increase is attributable to higher accounting expenses and corporate legal fees attributed to the increased corporate activity.

General and administrative expenses increased by \$32,000 (50%) from \$64,000 during the year ended December 31, 1994, to \$96,000 during the year ended December 31, 1995. This increase is primarily attributable to (i) shareholder servicing fees incurred during the year ended December 31, 1995 for dividend payments, (ii) the cost of printing and mailing the Company's new dividend reinvestment plan and annual reports and (iii) the cost of registration on the AMEX.

Interest expense of \$222,000 relates to interest and non-utilization charges on the revolving credit facility (approximately \$171,000) and interest incurred on borrower advances during the year ended December 31, 1995 (approximately \$51,000). The interest payable at December 31, 1995, of \$56,267 pertained to interest incurred on the outstanding balance of the revolving credit facility. The obligation to pay interest on borrowers advances is included in borrower advances on the accompanying balance sheet.

As the Company is currently qualified as a REIT under the applicable provisions of the Code, there are no provisions in the financial statements for Federal income taxes.

## **CASH FLOW ANALYSIS**

The Company generated \$3.8 million and \$6.6 million from operating activities during the years ended December 31, 1995 and 1994, respectively. The decrease of \$2.8 million (42%) was primarily due to fluctuations in borrowers advances (decreased \$4.1 million from a source of \$2.3 in 1994, to a use of \$1.8 million in 1995). During 1994, as many construction projects were in the initial stages, the borrowers were required to submit their required advances. Since 1994 was the first full year of operations, there was no reimbursement activity for prior years advances and consequently 1994 had a significant positive cash flow from borrowers advances. During 1995, the Company had significant completion on many of the construction projects, with the result being a net reduction in outstanding borrowers advances at December 31, 1995. Offsetting the decrease in borrowers advances were increases in net income and due to affiliates. Net income increased \$1.7 million (53%) from \$3.2 million during the year ended December 31, 1994 to \$4.9 million during the year ended December 31, 1995. Cash used for advances to affiliates



increased by \$500,000 from \$160,000 at December 31, 1994 to \$660,000 at December 31, 1995. The increase was a result of the annual fee pursuant to the investment management agreement increasing in 1995 due to the larger base of invested assets and achieving the target to earn the full incentive fee with such fee payable in 1996.

The Company used \$26.7 million and \$25.1 million through investing activities during the years ended December 31, 1995 and 1994, respectively. As lending is the Company's primary source of business, loans funded/purchased is the main reason for these uses. Loans funded/purchased were \$31.7 million during the year ended December 31, 1995 as compared to \$35.0 million for the year ended December 31, 1994, a 9% decrease. This decrease was due to the amount of construction projects in process during 1995, whereas these projects utilize the Company's funds available for commitment, the actual funding process occurs over a period of time. During 1994, most of the amounts loaned related to the acquisition or refinance of lodging properties.

The Company generated \$4.3 million and \$2.3 million from financing activities during the years ended December 31, 1995 and 1994. During 1994, the main source of funds was \$5.2 million received from the exercise of over allotments of the IPO. During 1995, the main source of funds was net proceeds from advances under the Company's revolving credit facility (\$7.9 million). The Company's main use of funds from financing activities are the payment of dividends as part of its requirements to maintain REIT status. Dividends paid increased from \$2.5 million during the year ended December 31, 1994 to \$4.3 million during the year ended December 31, 1995. This increase (\$1.8 million), corresponds to the Company's increase in net income.

## **LIQUIDITY AND CAPITAL RESOURCES**

The primary use of the Company's funds is to originate loans and, from time to time, to acquire loans from governmental agencies and/or their agents. The Company also uses funds for payment of dividends to shareholders, management and advisory fees (in lieu of salaries and other administrative overhead), general corporate overhead and interest and principal payments on borrowed funds.

At December 31, 1995, the Company had \$207,000 of cash and cash equivalents and approximately \$15.5 million in outstanding commitments to originate loans. Such commitments were made in the ordinary course of the Company's business. These commitments to extend credit are conditioned upon compliance with the terms of the commitment letter. Commitments have fixed expiration dates and require payment of a fee. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements. In general, to meet its liquidity requirements, including expansion of its outstanding loan portfolio, the Company intends to use: (i) its short-term credit facility as described below, (ii) placement of long-term borrowings, (iii) issuance of debt securities and/or (iv) offering of additional equity securities, including preferred shares of beneficial interest (the "Preferred Shares"). Pursuant to the Investment Management Agreement, if the Company does not have available capital to fund outstanding commitments, the Investment Manager will refer such commitments to affiliates of the Company. The ability of the Company to meet its liquidity needs will depend on its ability to borrow funds or issue equity securities on favorable terms.

By December 31, 1995, the Company had fully utilized the proceeds from its IPO. During 1995, the Company completed an arrangement for a revolving credit facility providing the Company with funds to originate loans collateralized by commercial real estate. This credit facility provides the Company up to the lesser of \$20 million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings. At December 31, 1995, the Company had \$7.9 million outstanding under the credit facility and a loan availability of an additional \$12.1 million. The Company is charged interest on the balance outstanding under the credit facility at the Company's election of either the prime rate of the lender less 50 basis points or 200 basis points over the 30, 60 or 90 day LIBOR. Additional funds will be available to the Company from the proceeds of the dividend reinvestment plan or SBA 504 loan takeouts. Management anticipates these sources of funds will be adequate to meet its existing obligations.

On March 12, 1996, the Company, through a limited partnership structure, completed a private placement of approximately \$29.5 million of notes issued pursuant to a rated structured financing collateralized by a portion of the Company's commercial loan portfolio (the "Private Placement"). The financing resulted in net proceeds to the Company of approximately \$27.3 million, of which approximately \$10.3 million were used to repay outstanding borrowings under the Company's credit facility. After utilization of these funds and until such time as additional long-term financing is available, the Company will continue to borrow funds based on a variable rate of interest (short-term borrowings) and originate loans on a fixed-rate of interest. Net income on these leveraged funds will be materially dependent on the spread between the rate at which it borrows funds and the rate at which it loans these funds.

In general, if the returns on loans originated by the Company with funds obtained from any borrowing or the issuance of any Preferred Shares fail to cover the cost of such funds, the net cash flow on such loans will be negative. Additionally, any increase in the interest rate earned by the Company on investments in excess of the interest rate or dividend rate incurred on the funds obtained from either borrowings or the issuance of Preferred Shares would cause its net income to increase more than it would without the leverage. Conversely, any decrease in the interest rate earned by the Company on investments would cause net income to decline by a greater amount than it would if the funds had not been obtained from either borrowings or the issuance of Preferred Shares. Leverage is thus generally considered a speculative investment technique.

Loan demand has remained high for the types of loans originated by the Company (see "Loan Commitments"). The Private Placement may not provide the Company with sufficient capital to expand the outstanding portfolio at historical growth levels. Accordingly, during the year ending December 31, 1996, the Company may seek additional sources of financing through private or public sale of Common Shares as described above. There can be no assurance the Company will be able to raise funds through these financing sources. If these sources are not available, the Company will have to fully utilize its \$20 million revolving credit facility and may have to slow the rate of increasing the outstanding loan portfolio.

#### **RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS INCLUDED IN THIS FORM 10-K**

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of the loan portfolio and availability of funds. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in the Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In 1993, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 114 "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118 "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." These pronouncements are effective for fiscal years beginning after December 15, 1994. These statements provide income recognition criteria on loans and generally require creditors to value certain impaired and restructured loans at the present value of the expected future cash flows, discounted at the loan's effective interest rate, or at fair value of the collateral if the loan is collateral dependent.

The implementation SFAS No. 114 and SFAS No. 118 did not have an effect on the Company's financial statements.

In 1995, FASB issued SFAS No.123, "Accounting for Stock-Based Compensation". Pursuant to SFAS No. 123, a company may elect to continue expense recognition under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No.25) or to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on fair value methodology outlined in SFAS No.

123. SFAS No. 123 further specifies that companies electing to continue expense recognition under APB No. 25 are required to disclose pro forma net income and pro forma earnings per share as if the fair value based accounting prescribed by SFAS No. 123 has been applied. The Company has elected to continue expense recognition pursuant to APB No. 25. SFAS No. 123 is effective for fiscal years beginning after December 15, 1995.

In 1992, FASB issued SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," to require disclosure in the body of the financial statements or the accompanying notes regarding the fair value of financial instruments for which it is practicable to estimate that value and the methods and significant assumptions used. The effective date is for financial statements issued in fiscal years ending after December 15, 1995. The Company has incorporated the requirements of SFAS No.107 in the accompanying financial statements.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item 8 is hereby incorporated by reference to the Company's Financial Statements beginning on page F-1 of this 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**

Incorporated herein by reference to the Company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 23, 1996.

### **ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference to the Company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 23, 1996.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Incorporated herein by reference to the Company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 23, 1996.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Incorporated herein by reference to the Company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 23, 1996.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) Financial Statements - See index to Financial Statements set forth on page F-1 of this Form 10-K.

(2) Financial Statement Schedules - All schedules are omitted because they are not required under the related instructions or not applicable, or because the required information is included elsewhere in the financial statements or notes thereto.

(3) Exhibits

*3.1	Declaration of Trust
*3.1(a)	Amendment No. 1 to Declaration of Trust
**3.1(b)	Amendment No.2 to Declaration of Trust
*3.2	Bylaws
*4.	Instruments defining the rights of security holders. The instruments filed in response to items 3.1 and 3.2 are incorporated in this item by reference.
*10.1	Investment Management Agreement between the Company and PMC Advisers, Inc.
*10.2	1993 Employee Share Option Plan
*10.3	1993 Trust Manager Share Option Plan
*10.4	Form of Dividend Reinvestment Plan
*10.5	Loan Origination Agreement
10.6	Revolving Credit Facility
10.7	Structured Financing
27	Financial Data Schedule

(b) Reports on Form 8-K - None

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\* Previously filed with the Company's Registration Statement of Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.

\*\* Previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.

## GLOSSARY

The following terms as used in this Form 10-K are briefly defined below:

Average Annual Value of All Assets	The book value of total assets determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year, divided by five.
Average Annual Value of All Invested Assets	The book value of Invested Assets determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year, divided by five.
Average Common Beneficiaries' Equity	The common equity capital on the first day of the year and on the last day of each quarter of such year, divided by five.
Average Quarterly Value of All Assets	The book value of total assets determined in accordance with GAAP on the first day of the quarter and on the last day of the quarter, divided by two.
Common Equity Capital	The sum of the stated capital plus the additional paid-in capital for the Shares.
GAAP	Generally accepted accounting principles.
Invested Assets	The Primary Investments plus the Other Investments.
Return on Average Equity Capital	Net income of the Company as determined in accordance with GAAP, less preferred dividends, if any, divided by the Average Common Equity Capital.

## 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.

### PMC Commercial Trust

By: /s/ Lance B. Rosemore

Lance B. Rosemore, President

Dated March 28, 1996

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

NAME ----	TITLE -----	DATE ----
/S/ DR. ANDREW S. ROSEMORE ----- Dr. Andrew S. Rosemore	Chairman of the Board of Trust Managers, Chief Operating Officer and Trust Manager	March 28,1996
/S/ LANCE B. ROSEMORE ----- Lance B. Rosemore	President, Chief Executive Officer, Secretary and Trust Manager (principal executive officer)	March 28,1996
/S/ BARRY N. BERLIN ----- Barry N. Berlin	Chief Financial Officer (principal financial and accounting officer)	March 28,1996
/S/ IRVING MUNN ----- Irving Munn	Trust Manager	March 28,1996
/S/ ROY H. GREENBERG ----- Roy H. Greenberg	Trust Manager	March 28,1996
/S/ NATHAN COHEN ----- Nathan Cohen	Trust Manager	March 28,1996

**PMC COMMERCIAL TRUST**

**INDEX TO FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED DECEMBER 31, 1995, 1994 AND 1993**

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Shareholders and Board of Trust Managers PMC Commercial Trust:

We have audited the accompanying balance sheets of PMC Commercial Trust as of December 31, 1995 and 1994, and the related statements of income, beneficiaries' equity, and cash flows for each of the two years in the period ended December 31, 1995 and for the period June 4, 1993 (date of inception) to December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PMC Commercial Trust as of December 31, 1995 and 1994, the results of its operations and its cash flows for each of the years in the two year period ended December 31, 1995 and for the period June 4, 1993 (date of inception) to December 31, 1993, in conformity with generally accepted accounting principles.

**COOPERS & LYBRAND L.L.P.**

Dallas, Texas  
March 20, 1996

**PMC COMMERCIAL TRUST  
BALANCE SHEETS**

		December 31,	
		1995	1994
ASSETS			
Investments:			
Loans receivable, net . . . . .		\$ 59,129,536	\$ 32,693,752
Cash equivalents . . . . .		173,679	18,809,314
Total investments . . . . .		59,303,215	51,503,066
Other assets:			
Cash . . . . .		33,504	40,789
Other Receivables. . . . .		26,382	-
Interest receivable. . . . .		410,073	208,525
Organization costs, net . . . . .		24,101	32,141
Total other assets . . . . .		494,060	281,455
Total assets. . . . .		\$ 59,797,275	\$ 51,784,521
LIABILITIES AND BENEFICIARIES' EQUITY			
Liabilities:			
Notes payable. . . . .		\$ 7,920,000	\$ -
Dividends payable. . . . .		1,518,896	1,033,659
Accounts payable. . . . .		14,175	-
Interest Payable . . . . .		56,267	-
Borrower advances . . . . .		579,133	2,346,162
Unearned commitment fees . . . . .		599,978	560,728
Due to affiliates . . . . .		844,786	184,523
Unearned construction monitoring fees . . . . .		81,008	219,048
Total liabilities . . . . .		11,614,243	4,344,120
Commitments and contingencies ( Note 9 )			
Beneficiaries' equity:			
Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 3,491,716 and 3,444,530 shares issued and outstanding at December 31, 1995 and December 31, 1994, respectively . . . . .		34,917	34,445
Additional paid-in capital . . . . .		48,326,337	47,704,383
Cumulative net income . . . . .		8,111,318	3,215,294
Cumulative dividends . . . . .		(8,289,540)	(3,513,721)
Total beneficiaries' equity. . . . .		48,183,032	47,440,401
Total liabilities and beneficiaries' equity . . . . .		\$ 59,797,275	\$ 51,784,521
Net asset value per share . . . . .		\$ 13.80	\$ 13.77

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.**

**PMC COMMERCIAL TRUST  
STATEMENTS OF INCOME**

	Years Ended December 31,		June 4, 1993 (Date of) Inception) to December 31, 1993
	1995	1994	
Revenues:			
Interest income - loans . . . . .	\$ 5,610,391	\$ 2,289,355	\$ 3,039
Interest and dividends - other investments . . .	324,779	1,221,768	12,678
Other income . . . . .	295,245	179,649	-
Total revenues . . . . .	6,230,415	3,690,772	15,717
Expenses:			
Advisory and servicing fees, net . . . . .	945,720	357,311	-
Legal and accounting fees . . . . .	70,940	32,628	-
General and administrative . . . . .	96,028	63,543	565
Interest . . . . .	221,703	37,148	-
Total expenses . . . . .	1,334,391	490,630	565
Net income . . . . .	\$ 4,896,024	\$ 3,200,142	\$ 15,152
Weighted average shares outstanding . . . . .	3,451,091	3,430,009	3,099,530
Net income per share . . . . .	\$ 1.42	\$ 0.93	\$ 0.01

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.**

**PMC COMMERCIAL TRUST**  
**STATEMENTS OF BENEFICIARIES' EQUITY**  
**FOR THE PERIOD FROM JUNE 4, 1993 (DATE OF INCEPTION) TO DECEMBER 31, 1993 AND**  
**THE YEARS ENDED DECEMBER 31, 1994 AND 1995**

	COMMON SHARES OF BENEFICIAL INTEREST	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	CUMULATIVE NET INCOME
Balances, June 4, 1993 (Inception) . . . . .	-	\$ -	\$ -	\$ -
Shares issued upon formation . . . . .	200	2	2,788	-
Initial shares sold to public . . . . .	3,000,000	30,000	44,970,000	-
Initial shares sold through direct offering . . . . .	99,330	993	1,384,660	-
Issuance costs . . . . .	-	-	(3,462,365)	-
Net income . . . . .	-	-	-	15,152
Balances, December 31, 1993 . . . . .	3,099,530	30,995	42,895,083	15,152
Additional shares sold through initial public offering . . . . .	345,000	3,450	5,171,550	-
Issuance costs . . . . .	-	-	(362,250)	-
Dividends ( \$1.02 per share ) . . . . .	-	-	-	-
Net income . . . . .	-	-	-	3,200,142
Balances, December 31, 1994 . . . . .	3,444,530	34,445	47,704,383	3,215,294
Shares issued though exercise of stock options . . . . .	12,996	130	122,836	-
Shares issued though dividend reinvestment plan . . . . .	34,190	342	499,118	-
Dividends ( \$1.38 per share ) . . . . .	-	-	-	-
Net income . . . . .	-	-	-	4,896,024
Balances, December 31, 1995 . . . . .	3,491,716	\$ 34,917	\$ 48,326,337	\$ 8,111,318
	=====	=====	=====	=====
	CUMULATIVE DIVIDENDS	TOTAL BENEFICIARIES' EQUITY		
Balances, June 4, 1993 (Inception) . . . . .	\$ -	\$ -	-	-
Shares issued upon formation . . . . .	-	-	2,790	-
Initial shares sold to public . . . . .	-	-	45,000,000	-
Initial shares sold through direct offering . . . . .	-	-	1,385,653	-
Issuance costs . . . . .	-	-	(3,462,365)	-
Net income . . . . .	-	-	15,152	-
Balances, December 31, 1993 . . . . .	-	-	42,941,230	-
Additional shares sold through initial public offering . . . . .	-	-	5,175,000	-
Issuance costs . . . . .	-	-	(362,250)	-
Dividends ( \$1.02 per share ) . . . . .	(3,513,721)	-	(3,513,721)	-
Net income . . . . .	-	-	3,200,142	-
Balances, December 31, 1994 . . . . .	(3,513,721)	-	47,440,401	-
Shares issued though exercise of stock options . . . . .	-	-	122,966	-
Shares issued though dividend reinvestment plan . . . . .	-	-	499,460	-
Dividends ( \$1.38 per share ) . . . . .	(4,775,819)	-	(4,775,819)	-
Net income . . . . .	-	-	4,896,024	-
Balances, December 31, 1995 . . . . .	\$ (8,289,540)	\$ -	\$ 48,183,032	-
	=====	=====	=====	=====

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**



**PMC COMMERCIAL TRUST  
STATEMENTS OF CASH FLOWS**

	YEARS ENDED DECEMBER 31,		JUNE 4, 1993 (DATE OF) INCEPTION) TO DECEMBER 31, 1993
	1995	1994	
<b>CASH FLOWS FROM OPERATING Activities:</b>			
Net income . . . . .	\$ 4,896,024	\$ 3,200,142	\$ 15,152
Adjustments to reconcile net income to net cash provided by operating activities:			
Accretion of:			
Government securities . . . . .	-	(80,384)	-
Discount on purchased loans . . . . .	(26,460)	(22,094)	-
Deferred commitment fees . . . . .	(196,951)	(166,200)	-
Construction monitoring fees . . . . .	(146,054)	(39,946)	-
Amortization of organization costs . . . . .	8,040	8,040	-
Commitment fees collected . . . . .	546,211	1,295,419	97,010
Construction monitoring fees collected, net . . . . .	8,014	258,994	-
Changes in operating assets and liabilities:			
Accrued interest receivable . . . . .	(201,548)	(208,525)	(40,181)
Other assets . . . . .	(26,382)	-	-
Interest payable . . . . .	56,267	-	-
Borrower advances . . . . .	(1,767,029)	2,346,162	-
Due to affiliates . . . . .	660,263	159,966	24,557
Accounts payable . . . . .	14,175	(187,655)	187,115
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES . . . . .</b>	<b>3,824,570</b>	<b>6,563,919</b>	<b>283,653</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Loans funded/purchased . . . . .	(31,711,230)	(34,982,484)	(3,215,660)
Principal collected . . . . .	4,991,896	4,861,525	-
Redemption (purchase) of government securities . . . . .	-	5,000,000	(4,919,616)
<b>NET CASH USED IN INVESTING ACTIVITIES . . . . .</b>	<b>(26,719,334)</b>	<b>(25,120,959)</b>	<b>(8,135,276)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common shares . . . . .	582,107	5,175,000	46,388,443
Proceeds from issuance of notes payable . . . . .	9,130,000	-	-
Payment of dividends . . . . .	(4,250,263)	(2,480,062)	-
Payment of issuance costs . . . . .	-	(362,250)	(3,462,365)
Payment of principal on notes payable . . . . .	(1,210,000)	-	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES . . . . .</b>	<b>4,251,844</b>	<b>2,332,688</b>	<b>42,926,078</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>(18,642,920)</b>	<b>(16,224,352)</b>	<b>35,074,455</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD . . . . .</b>	<b>18,850,103</b>	<b>35,074,455</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD . . . . .</b>	<b>\$ 207,183</b>	<b>\$ 18,850,103</b>	<b>\$ 35,074,455</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>			
Dividends reinvested . . . . .	\$ 40,319	\$ -	\$ -
Interest paid . . . . .	\$ 165,436	\$ 37,148	\$ -

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.**

## **PMC COMMERCIAL TRUST**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **General:**

PMC Commercial Trust (the "Company") was organized on June 4, 1993, as a Texas real estate investment trust created primarily to originate loans to small business enterprises which are collateralized by first liens on real estate. The shares of the Company are traded on the American Stock Exchange (Symbol "PCC"). The Company follows the accounting practices prescribed in Statement of Position 75-2 "Accounting Practices of Real Estate Investment Trusts." The Company's principal investment objective is to obtain current income from interest payments and other related fee income on collateralized business loans. The Company's investment advisor is PMC Advisers, Inc. ("PMC Advisers" or the "Investment Manager"), a wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital"), a regulated investment company traded on the American Stock Exchange (symbol "PMC"). The Company intends to maintain its qualified status as a real estate investment trust ("REIT") for Federal income tax purposes.

##### **Use of Estimates in the Preparation of Financial Statements:**

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

##### **Loans Receivable:**

Loans receivable are carried at their outstanding principal balance less any discounts, deferred fees net of related costs, and loan loss reserves. A loan loss reserve is established based on a determination, through an evaluation of the recoverability of individual loans, by the Board of Trust Managers when significant doubt exists as to the ultimate realization of the loan. To date, no loan loss reserves have been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgement and considers the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may require the establishment of additional loan loss reserves in proportion to the potential loss.

Deferred fee revenue is included in the carrying value of loans receivable and consists of non-refundable fees less certain direct loan origination costs which are being recognized over the life of the related loan as an adjustment of yield.

##### **Deferred Organization Costs:**

Costs incurred by the Company in connection with its organization are being amortized on a straight-line basis over a five year period.

##### **Income Taxes:**

The Company intends to maintain its qualified status as a REIT under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). In order to remain qualified as a REIT under the Code, the Company must elect to be a REIT and must satisfy various requirements in each taxable year, including, among others, limitations on share ownership, asset diversification, sources of income, and distribution of income. By qualifying, the Company will not be subject to Federal income taxes to the extent that it distributes at least 95% of its taxable income in the fiscal year. Management of the Company believes it has satisfied the various requirements to remain qualified as a REIT.

##### **Interest Income:**

Interest income is recorded on the accrual basis to the extent that such amounts are deemed collectible. The Company's policy is to suspend the accrual of interest income when a loan becomes 60 days delinquent.

**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Statement of Cash Flows:**

The Company generally considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents for the statement of cash flows.

**Per Share Data:**

Net income per share is based on the weighted average number of common shares of beneficial interest outstanding during the period.

**Reclassification:**

Certain prior period amounts have been reclassified to conform to current year presentation.

**Statements of Financial Accounting Standards ("SFAS")**

In 1993, the Financial Accounting Standards Board ("FASB") issued SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118 "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." These pronouncements are effective for fiscal years beginning after December 15, 1994. These statements provide income recognition criteria on loans and generally require creditors to value certain impaired and restructured loans at the present value of the expected future cash flows, discounted at the loan's effective interest rate, or at fair value of the collateral if the loan is collateral dependent. Implementing SFAS No. 114 and SFAS No. 118 did not have an effect on the Company's financial statements.

In 1995, FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". Pursuant to SFAS No. 123, a company may elect to continue expense recognition under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) or to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on fair value methodology outlined in SFAS No.

123. SFAS No. 123 further specifies that companies electing to continue expense recognition under APB No. 25 are required to disclose pro forma net income and pro forma earnings per share as if the fair value based accounting prescribed by SFAS No. 123 has been applied. The Company has elected to continue expense recognition pursuant to APB No. 25. SFAS No. 123 is effective for fiscal years beginning after December 15, 1995.

**NOTE 2. LOANS RECEIVABLE:**

The Company primarily originates loans: (i) to small business enterprises that exceed the net worth, asset, income, number of employee or other limitations applicable to the Small Business Administration ("SBA") programs utilized by PMC Capital or (ii) in excess of \$1.1 million to small business enterprises without regard to SBA eligibility requirements. Such loans are collateralized by first liens on real estate and are subject to the Company's underwriting criteria.

The principal amount of loans originated by the Company have not exceeded 70% of the lesser of fair value or cost of the real estate collateral unless credit enhancements such as additional collateral or third party guarantees were obtained. Loans originated or purchased by the Company typically provide interest payments at fixed rates, although the Company may also originate and purchase variable rate loans. Loans generally have maturities ranging from five to 10 years. Most loans provide for scheduled amortization and often have a balloon payment requirement. In most cases, borrowers are entitled to prepay all or part of the principal amount subject to a prepayment penalty depending on the terms of the loan.

During the years ended December 31, 1995 and 1994, the Company originated loans to 31 and 38 corporations, partnerships or individuals for approximately \$31.7 and \$33.6 million and collected commitment fees of approximately \$546,000 and \$1.3 million, respectively.



**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. LOANS RECEIVABLE: (CONTINUED)**

During the year ended December 31, 1994, the Company purchased loans with a face value of \$1,502,005, for \$1,325,113 from the U.S. Government and/or its agents. The discount on these loans is netted against loans receivable and is being amortized over the remaining life of the loans on the interest method. During the years ended December 31, 1995 and 1994, approximately \$26,000 and \$22,000 of the discount has been recognized as interest income, respectively.

At December 31, 1995, approximately 32% and 12% of the Company's loan portfolio consisted of loans to borrowers in Texas and Maryland, respectively. No other state had a concentration of 10% or greater at December 31, 1995. Approximately 38%, 11% and 10% of the Company's loan portfolio as of December 31, 1994 consisted of loans to borrowers in Texas, Maryland and Pennsylvania, respectively. No other state had a concentration of 10% or greater at December 31, 1994. The Company's loan portfolio was approximately 96% and 92% concentrated in the lodging industry at December 31, 1995 and 1994, respectively.

In connection with the origination of a loan, the Company charges a commitment fee. In accordance with SFAS No. 91, this non-refundable fee, less the direct costs associated with the origination, is deferred and is included as a reduction of the carrying value of loans receivable. These net fees are being recognized as income over the life of the related loan as an adjustment of yield. The Company had \$974,971 and \$664,962 in deferred commitment fees at December 31, 1995 and 1994, respectively.

**NOTE 3. DUE TO AFFILIATE:**

The investments of the Company are managed by PMC Advisers. Pursuant to an investment management agreement between the Company and the Investment Manager (the "Investment Management Agreement"), the Company is obligated to pay to the Investment Manager, quarterly in arrears, a base fee (the "Base Fee") consisting of a quarterly servicing fee of 0.125% of the average quarterly value of all assets (as defined in the Investment Management Agreement), representing on an annual basis approximately 0.5% of the average annual value of all assets (as defined in the Investment Management Agreement), and a quarterly advisory fee of 0.25% of the average quarterly value of all invested assets (as defined in the Investment Management Agreement), representing on an annual basis approximately 1% of the average annual value of all invested assets (as defined in the Investment Management Agreement). In addition, commencing January 1, 1994, for each calendar year during which the Company's annual return on average equity capital (as defined in the Investment Management Agreement) after deduction of the Base Fee (the "Actual Return") exceeds 6.69% (the "Minimum Return"), the Company will pay to the Investment Manager, as incentive compensation, an additional advisory fee (the "Annual Fee") equal to the product determined by multiplying the average annual value of all invested assets (as defined in the Investment Management Agreement) by a percentage equal to the difference between the Actual Return and the Minimum Return, up to a maximum of one percent (1%) per annum. The Annual Fee will be earned only to the extent that the annual return on average common equity capital (as defined in the Investment Management Agreement) after deduction of the Base Fee and Annual Fee is at least equal to the Minimum Return. All such advisory fees will be reduced to fifty percent with respect to the value of Invested Assets that exceed common beneficiaries' equity as a result of leverage or the issuance of preferred shares.

Pursuant to the Investment Management Agreement, the Company incurred fees of \$1,189,000 and \$429,000 based upon average annual value of and all assets of \$53,884,788 and \$48,993,937 and average annual value of all invested assets of \$46,756,497 and \$18,922,343, for the years ended December 31, 1995 and 1994, respectively. The advisory fee for the period January 1 through June 30, 1994, in the amount of \$57,932, was waived by the Investment Manager. Of the amount of service and advisory fees paid or payable to the Investment Manager as of December 31, 1995 and 1994, \$244,000 and \$71,500, respectively, have been offset against commitment fees as a direct cost of originating loans, respectively (see NOTE 2).

**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4. BORROWER ADVANCES:**

The Company finances projects during the construction phase. At December 31, 1995 and 1994, the Company was in the process of funding approximately \$15.9 million and \$16.1 million in construction projects, respectively, of which \$9.2 million and \$11.4 million in future fundings remain, respectively. As part of the monitoring process to verify that the borrowers' cash equity is utilized for its intended purpose, the Company receives funds from the borrowers and releases funds upon presentation of appropriate supporting documentation. At December 31, 1995 and 1994, the Company had \$579,000 and \$2.3 million, respectively, in funds held on behalf of borrowers which is included as a liability in the accompanying balance sheet. The Company will use cash, cash equivalents or available advances under its revolving credit facility to fund these obligations.

**NOTE 5. NET INCOME PER SHARE:**

The weighted average number of common shares of beneficial interest outstanding were 3,451,091, 3,430,009 and 3,099,530 for the periods ended December 31, 1995, 1994 and 1993, respectively. Net income per share for the period ended December 31, 1993 is based on the weighted average number of common shares of beneficial interest outstanding during the period December 27, 1993 (commencement of operations) to December 31, 1993. The years ended December 31, 1995 and 1994 were not affected by outstanding options, as such options were anti-dilutive or immaterial (see NOTE 9).

**NOTE 6. BENEFICIARIES' EQUITY:**

During January 1994, the Company sold 345,000 additional common shares of beneficial interest pursuant to the exercise by the underwriters of over-allotment options relating to the initial public offering for net proceeds, after underwriting discount, of approximately \$4.8 million.

As part of the requirements of qualifying for REIT status under the Code, the Company must distribute to its shareholders at least 95% of its income for Federal income tax purposes ("Taxable Income") within established time requirements of the Code. If these requirements are not met, the Company will be subject to Federal income taxes and/or excise taxes. As a result of a timing difference for the recognition of income with respect to fees collected at the inception of originating loans, the Company's Taxable Income exceeds net income in accordance with generally accepted accounting principals ("GAAP"). In order not to incur any tax liability, the Company has declared or distributed the required amount of taxable income as dividends to its shareholders. For Federal income tax purposes, these dividends do not represent a return of capital.

**NOTE 7. DIVIDEND REINVESTMENT PLAN:**

The Company filed a registration statement with the Securities and Exchange Commission to implement its dividend reinvestment plan. The registration statement was declared effective by the Securities and Exchange Commission on January 13, 1995. During the year ended December 31, 1995, 34,190 shares were issued pursuant to the plan.

**NOTE 8. SHARE OPTION PLANS:**

In accordance with the 1993 Employees Share Option Plan (the "Employees Plan") and Trust Managers Share Option Plan (the "Trust Managers Plan"), adopted by the Company, options to purchase up to 180,000 shares in aggregate can be granted to directors, officers or key employees.

**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. SHARE OPTION PLANS: (CONTINUED)**

The grants outstanding at December 31, 1995 are:

Number of Shares	Exercise Price	Date of Grant	Exercise Date	Expiration Date
-----	-----	-----	-----	-----
4,000	\$15.000	December 17, 1993	December 17, 1994	December 17, 1998
2,000	\$14.625	May 10, 1994	May 10, 1995	May 10, 1999
7,665	\$11.875	December 10, 1994	December 10, 1995	December 10, 1999
31,770	\$11.875	December 10, 1994	December 10, 1996	December 10, 1999
2,000	\$11.750	December 17, 1994	December 17, 1995	December 17, 1999
1,000	\$14.125	May 10, 1995	May 10, 1996	May 10, 2000
2,000	\$15.750	December 17, 1995	December 17, 1996	December 17, 2000
12,000	\$15.750	December 15, 1995	January 15, 1997	December 15, 2000
4,940	\$15.750	December 15, 1995	December 15, 1996	December 15, 2000
4,940	\$15.750	December 15, 1995	December 15, 1997	December 15, 2000

**Employees Plan:**

As of December 31, 1995, 86,020 share options had been granted, net of shares cancelled in 1994 as detailed below. During December 1995, 12,996 shares were exercised at \$11.875. In addition, 11,109 shares expired or were cancelled pursuant to the plan during the year ended December 31, 1995. The number of shares currently exercisable at December 31, 1995 were 7,665.

In December 1994, the Board of Trust Managers allowed the officers and employees holding existing options to elect to participate in an exchange of options as of December 10, 1994, whereby the then-outstanding options could be cancelled and, in lieu thereof, new options could be granted at an exchange rate of 0.6 new shares per share previously granted. As a result, 39,400 options were cancelled and 23,640 new options were issued.

**Trust Managers Plan:**

Only the trust managers who are not affiliated with PMC Capital or the Investment Manager (the "Independent Trust Managers") are eligible to participate in the Trust Managers Plan which provides for the grant of nonqualified share options covering up to an aggregate of 20,000 shares. The Trust Managers Plan is a nondiscretionary plan pursuant to which options to purchase 2,000 shares are granted to each Independent Trust Manager on the date such trust manager takes office. In addition, options to purchase 1,000 shares are granted each year thereafter on the anniversary of the date the trust manager took office so long as such trust manager is re-elected to serve as a trust manager. Such options will be exercisable at the fair market value of the shares on the date of grant. The options granted under the Trust Managers Plan become exercisable one year after date of grant and expire if not exercised on the earlier of (i) 30 days after the option holder no longer holds office as an Independent Trust Manager for any reason or (ii) within five years after date of grant. The number of shares currently exercisable at December 31, 1995 were 8,000.

**NOTE 9. COMMITMENTS AND CONTINGENCIES:**

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. The Company had approximately \$7.1 million of loan commitments outstanding to 6 corporations, partnerships or individuals in the lodging industry at December 31, 1995. The weighted average contractual interest rate on these loan commitments at December 31, 1995 was 10.95%. In addition, the Company had \$6.5 million of loan commitments outstanding on 12 partially funded construction loans and approximately \$1.9 million of loan commitments outstanding on three SBA Section 504 program loans. The above commitments are made in the ordinary course of the Company's business and in management's opinion, are generally on the same terms as those to existing borrowers. Commitments generally have fixed expiration dates and require payment of a fee. Since some commitments are expected to expire

**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. COMMITMENTS AND CONTINGENCIES: (CONTINUED)**

without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. To the extent the Company has available funds, an additional \$11.9 million in commitments in the lodging industry presently issued by the Investment Manager, with a weighted average interest rate of 10.74% will be funded by the Company. Pursuant to the Investment Management Agreement, should the Company not have funds available for commitments, such commitments will be referred to affiliated entities.

In the normal course of business, the Company is subject to various proceedings and claims, the resolution of which will not, in management's opinion, have a material adverse effect on the Company's financial position or results of operations.

**NOTE 10. NOTES PAYABLE:**

During 1995, the Company completed an arrangement for a revolving credit facility providing the Company with funds to originate loans collateralized by commercial real estate. This credit facility provides to the Company up to the lesser of \$20 million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings. At December 31, 1995, the Company had \$7.9 million outstanding under the credit facility with availability of an additional \$12.1 million. The Company is charged interest on the balance outstanding under the credit facility, at the option of the Company, at either the prime rate of the lender less 50 basis points or 200 basis points over the 30, 60 or 90 day LIBOR. At December 31, 1995, the weighted average interest rate on short-term borrowings under the revolving credit facility was 8.2%.

**NOTE 11. FAIR VALUES OF FINANCIAL INSTRUMENTS:**

The estimated fair values of the Company's financial instruments are as follows:

	Carrying Amount	Fair Value
	-----	-----
Assets:		
Loans receivable, net	\$59,129,536	\$60,505,163
Cash equivalents	173,679	173,679
Cash	33,504	33,504
Other Assets	436,445	436,445
Liabilities:		
Notes payable	7,920,000	7,920,000
Other liabilities	3,553,237	3,553,237

(a) Loans receivable, net

The estimated fair value for all fixed rate loans is estimated by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

(b) Cash equivalents

The carrying amount is a reasonable estimation of fair value.

(c) Cash

The carrying amount is a reasonable estimation of fair value.

**PMC COMMERCIAL TRUST**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11. FAIR VALUES OF FINANCIAL INSTRUMENTS: (CONTINUED)**

(d) Other assets

The carrying amount is a reasonable estimation of fair value.

(e) Notes payable

The carrying amount is a reasonable estimation of fair value since amounts due under the revolving credit facility are variable rate, short term obligations.

(f) Other liabilities

The carrying amount is a reasonable estimation of fair value.

**NOTE 12. QUARTERLY FINANCIAL DATA: (UNAUDITED)**

The following represents selected quarterly financial data of the Company; which in the opinion of management, reflects adjustments (comprising only normal recurring adjustments) necessary for fair presentation.

1995			
	Revenues	Net Income	Earnings Per Share
First Quarter . . . . .	\$1,421,548	\$1,185,124	\$ 0.34
Second Quarter . . . . .	1,414,668	1,128,282	0.33
Third Quarter . . . . .	1,591,744	1,254,743	0.36
Fourth Quarter . . . . .	1,802,455	1,327,875	0.39
	\$6,230,415	\$4,896,024	\$ 1.42
	=====	=====	=====
1994			
	Revenues	Net Income	Earnings Per Share
First Quarter . . . . .	\$ 490,596	\$ 410,606	\$ 0.12
Second Quarter . . . . .	778,500	665,075	0.19
Third Quarter . . . . .	1,231,607	1,125,493	0.33
Fourth Quarter . . . . .	1,190,069	998,968	0.29
	\$3,690,772	\$ 3,200,142	\$ 0.93
	=====	=====	=====

**NOTE 13. SUBSEQUENT EVENT:**

On March 12, 1996, a special purpose affiliate of the Company, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership formed on March 7, 1996 (the "Partnership"), completed a private placement of \$29,500,000 of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Company owns, directly or indirectly, all of the partnership interests of the Partnership. The Notes, issued at par, which mature in 2016 and bear interest at the rate of 6.72% per annum, are collateralized by approximately \$39.7 million of loans contributed by the Company to the Partnership. In connection with this private placement, the Notes were given a rating of "AA" by Duff and Phelps Credit Rating Co.. The loans were originated or purchased by the Company in accordance with the Company's lending strategy and underwriting criteria. The Partnership has the exclusive obligation for the repayment of the Notes, and the holders of the Notes have no recourse to the Company or its assets in the event of nonpayment. The net proceeds from this issuance of the Notes (approximately \$27.1 million after giving effect to costs of \$500,000 and a \$1.9 million deposit held by the trustee as collateral) were distributed to the Company in accordance with its partnership interest in the Partnership. The Company used such proceeds to pay down outstanding borrowings under the Company's credit facility and intends to make additional loans in accordance with its lending criteria.

## EXHIBIT INDEX

Exhibit Number	Description
-----	-----
*3.1	Declaration of Trust
*3.1(a)	Amendment No. 1 to Declaration of Trust
**3.1(b)	Amendment No.2 to Declaration of Trust
*3.2	Bylaws
*4.	Instruments defining the rights of security holders. The instruments filed in response to items 3.1 and 3.2 are incorporated in this item by reference.
*10.1	Investment Management Agreement between the Company and PMC Advisers, Inc.
*10.2	1993 Employee Share Option Plan
*10.3	1993 Trust Manager Share Option Plan
*10.4	Form of Dividend Reinvestment Plan
*10.5	Loan Origination Agreement
10.6	Revolving Credit Facility
10.7	Structured Financing
27	Financial Data Schedule

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\* Previously filed with the Company's Registration Statement of Form S-11 filed with the Securities and Exchange Commission on June 25, 1993, as amended (Registration No. 33-65910), and incorporated herein by reference.

\*\* Previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference

## REVOLVING CREDIT NOTE

**\$20,000,000.00 October 18, 1995**

FOR VALUE RECEIVED, on or before May 12, 1997 ("Maturity Date") PMC COMMERCIAL TRUST ("Borrower"), does hereby unconditionally promise to pay to the order of BANK ONE, TEXAS, NATIONAL ASSOCIATION ("Bank"), at its offices in Tarrant County, Texas at 500 Throckmorton, Fort Worth, Texas 76102, the principal amount of TWENTY MILLION AND NO/100 DOLLARS (\$20,000,000.00) ("Total Principal Amount"), or such amount less than the Total Principal Amount which is outstanding from time to time if the total amount outstanding hereunder is less than the Total Principal Amount, in lawful money of the United States of America, together with interest on such portion of the Total Principal Amount which has been drawn until paid at the rates per annum provided below.

1. Definitions. For purposes of this Note, unless the context otherwise requires, the following terms shall have the definitions assigned to such terms as follows:

"Adjusted Base Rate" shall mean a rate equal to the remainder of (i) the Base Rate, less (ii) one-half of one percent (.5%) per annum.

"Adjusted LIBOR Rate" shall mean with respect to each Interest Period, on any day thereof an amount equal to the sum of (i) two percent (2%), plus,  
(ii) the quotient of (a) the LIBOR Rate with respect to such Interest Period, divided by (b) the remainder of 1.0 less the Reserve Requirement in effect on such day. Each determination by Bank of the Adjusted LIBOR Rate shall, in the absence of manifest error, be conclusive and binding.

"Base Rate" shall mean the Prime Rate of interest per annum as published from time to time in Money Rates in The Wall Street Journal (or if such Prime Rate is not published in The Wall Street Journal, such other comparable rate of interest selected by the Bank in its sole discretion and published in a comparable financial publication.

"Base Rate Balance" shall mean that portion of the principal balance of this Note bearing interest at a rate based upon the Adjusted Base Rate.

"Business Day" shall mean any day other than a Saturday, Sunday or, any other day on which national banking associations are authorized to be closed.

"Consequential Loss" shall mean, with respect to Borrower's payment of all or any portion of the then-outstanding principal amount of any LIBOR Balance on a day other than the last day of the Interest Period related thereto, any loss, cost or expense incurred by Bank in redepositing such principal amount, including the sum of (i) the interest which, but for such payment, Bank would have earned in respect of such principal amount so paid, for the remainder of the Interest Period applicable to such sum, reduced, if Bank is able redeposit such principal amount so paid for the balance of such Interest Period, by the interest earned by Bank as a result of so redepositing such principal amount plus  
(ii) any expense or penalty incurred by Bank on redepositing such principal amount.

"Contract Rate" shall mean a rate of interest based upon the Adjusted LIBOR Rate or Adjusted Base Rate in effect at any time pursuant to an Interest Notice.

"Dollars" shall mean lawful currency of the United States of America.

"Event of Default" shall mean the (a) failure of Borrower to pay any installment of principal of or interest on this Note to Bank when due, (b) the occurrence of an event of default specified in any of the other Loan Documents, or (c) the bankruptcy or insolvency of, the assignment for the benefit of creditors by, or the appointment of a receiver for any of the property of, or the liquidation, termination, or dissolution of, any party liable for the payment of this Note, whether as maker, endorser, guarantor, surety or otherwise.

"Excess Interest Amount" shall mean, on any date, the amount by which (i) the amount of all interest which would have accrued prior to such date on the principal of this Note, had the applicable Contract Rate at all times been in effect without limitation by the Maximum Rate, exceeds (ii) the aggregate amount of interest accrued on this Note on or prior to such date.

"Interest Notice" shall mean the notice given by Borrower to Bank of the Interest Options selected hereunder. Each Interest Notice shall specify the Interest Option selected, the amount of the unpaid principal balance of this Note to bear interest at the rate selected and, if the Adjusted LIBOR Rate is specified, the length of the applicable Interest Period. An Interest Notice may be written or oral (if promptly confirmed thereafter in writing) and Bank is hereby authorized and directed to honor all telephonic Interest Notices from any person authorized to request advances hereunder.

"Interest Option" shall have the meaning assigned to such term in paragraph 6 hereof.

"Interest Payment Date" shall mean (i) in the case of the Base Rate Balance, January 1, 1996, April 1, 1996, July 1, 1996, October 1, 1996, January 1, 1997, April 1, 1997, and on the Maturity Date, and (ii) in the case of any LIBOR Balance, the last day of the corresponding Interest Period with respect to such LIBOR Balance and the maturity of this Note.

"Interest Period" shall mean, with respect to any LIBOR Balance, a period commencing: (i) on any date which, pursuant to an Interest Notice, the principal amount of such LIBOR Balance begins to accrue interest at the Adjusted LIBOR Rate, or (ii) the Business Day following the last day of the immediately preceding Interest Period in the case of a rollover to a successive Interest Period and ending 30, 60 or 90 days thereafter as Borrower shall elect in accordance with the provisions hereof; provided, that: (A) any Interest Period which would otherwise end on a day which is not a LIBOR Business Day shall be extended to the succeeding LIBOR Business Day and (B) any Interest Period which would otherwise end after the Maturity Date shall end on the Maturity Date.

"LIBOR Balance" shall mean any principal balance of this Note which, pursuant to an Interest Notice, bears interest at a rate based upon the Adjusted LIBOR Rate for the Interest Period specified in such Interest Notice.

"LIBOR Business Day" shall mean a day on which dealings in Dollars are carried out in the London interbank Eurodollar market.

"LIBOR Rate" shall mean, with respect to each Interest Period, the rate of interest per annum



at which deposits in Dollars are offered by the major London clearing banks, as reported by Knight-Ridder news service (or such other similar news reporting service as Bank may subscribe to at the time such LIBOR Rate is determined), in the London interbank Eurodollar market for a period of time equal or comparable to such Interest Period and in an amount equal to or comparable to the principal amount of the LIBOR Balance to which such Interest Period relates. The LIBOR Rate for such Interest Period to which it relates, shall (i) be determined as of 11:00 a.m. (London, England time) on the first LIBOR Business Day of such Interest Period, and (ii) shall be rounded upward, if necessary, to the nearest one-one hundredth of one percent.

"Loan Agreement" shall mean that certain Loan Agreement dated May 12, 1995 by and between Bank and Borrower, as amended by First Amendment of even date herewith.

"Loan Documents" shall mean this Note, the Loan Agreement and all other documents evidencing, securing, governing, guaranteeing and/or pertaining to this Note.

"Maximum Rate" shall mean, with respect to the holder hereof, the maximum nonusurious interest rate, if any, that at any time, or from time to time, may be contracted for, taken, reserved, charged, or received on the indebtedness evidenced by this Note under the laws which are presently in effect in the United States and the State of Texas applicable to such holder and such indebtedness or, to the extent permitted by law, under such applicable laws of the United States and the State of Texas which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow. To the extent that TEX. REV. CIV. STAT. ANN. art. 5069-1.04, as amended (the "Act"), is relevant to any holder of this Note for the purposes of determining the Maximum Rate, each such holder elects to determine such applicable legal rate under the Act pursuant to the "indicated rate ceiling," from time to time in effect, as referred to and defined in article 1.04(a)(1) of the Act; subject, however, to the limitations on such applicable ceiling referred to and defined in article 1.04(b)(2) of the Act, and further subject to any right such holder may have subsequently, under applicable law, to change the method of determining the Maximum Rate. If no Maximum Rate is established by applicable law, then the Maximum Rate shall be equal to eighteen percent (18%).

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System from time to time in effect and shall include any successor or other regulation relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Reserve Requirement" shall, on any day, mean that percentage (expressed as a decimal fraction) which is in effect on such day, as provided by the Board of Governors of the Federal Reserve System (or any successor governmental body) for determining the reserve requirements including without limitation, basic, supplemental, marginal and emergency reserves) under Regulation D with respect to "Eurocurrency liabilities" as currently defined in Regulation D, or under any similar or successor regulation. For purposes of this definition, any LIBOR Balances hereunder shall be deemed "Eurocurrency liabilities" under Regulation D without benefit of or credit for prorations, exemptions or offsets under Regulation D. Bank's determination of the Reserve Requirement shall be conclusive.

2 Payments of Interest and Principal. Interest on the unpaid principal balance of this Note shall be due and payable on each Interest Payment Date as it accrues and the entire unpaid principal balance of this Note, and all accrued but unpaid interest thereon, shall be due and payable on the Maturity Date.

3. Rates of Interest. The unpaid principal of the Base Rate Balance shall bear interest at a rate per annum which shall from day to day be equal to the lesser of (i) the Adjusted Base Rate in effect from day to day, or
- (ii) the Maximum Rate. The unpaid principal of each LIBOR Balance shall bear interest at a rate per annum which shall from day to day be equal to the lesser of (i) the Adjusted LIBOR Rate for the Interest Period in effect with respect to such LIBOR Balance, or (ii) the Maximum Rate. Each change in the interest rate applicable to a Base Rate Balance shall become effective without prior notice to Borrower automatically as of the opening of business on the date of such change in the Adjusted Base Rate. Interest on this Note shall be calculated on the basis of the actual days elapsed in a year consisting of 360 days.
4. Interest Recapture. If on each Interest Payment Date or any other date on which interest payments are required hereunder, Bank does not receive interest on this Note computed at the Contract Rate because such Contract Rate exceeds or has exceeded the Maximum Rate, then Borrower shall, upon the written demand of Bank, pay to Bank in addition to the interest otherwise required to be paid hereunder, on each Interest Payment Date thereafter, the Excess Interest Amount (calculated as of such later Interest Payment Date); provided that in no event shall Borrower be required to pay, for any Interest Period, interest at a rate exceeding the Maximum Rate effective during such period.
5. Interest on Past Due Amounts. To the extent any interest is not paid on or before the fifth day after it becomes due and payable, Bank may, at its option, add such accrued but unpaid interest to the principal of this Note. Notwithstanding anything herein to the contrary, upon an Event of Default or at maturity, whether by acceleration or otherwise, all principal of this Note shall, at the option of Bank, bear interest at the Maximum Rate until paid.
6. Interest Option. Subject to the provisions hereof, Borrower shall have the option (an "Interest Option") of having designated portions of the unpaid principal balance of this Note bear interest at a rate based upon the Adjusted LIBOR Rate or Adjusted Base Rate as provided in paragraph 3 hereof; provided, however, that the selection of the Adjusted LIBOR Rate for a particular Interest Period shall not be for less than \$10,000.00 of unpaid principal or an integral multiple thereof. The Interest Option shall be exercised in the manner provided below:
- (i) At Time of Borrowing. Contemporaneously with each request for an advance by Borrower under Paragraph 9 herein, Borrower shall give Bank an Interest Notice indicating the initial Interest Option selected with respect to the principal balance of such advance.
- (ii) At Expiration of Interest Periods. On or before the day of termination of any Interest Period, Borrower shall give Bank an Interest Notice indicating the Interest Option to be applicable to the corresponding LIBOR Balance upon the expiration of such Interest Period. If the required Interest Notice shall not have been timely received by Bank prior to the expiration of the then-relevant Interest Period, Borrower shall be deemed to have selected a rate based upon the Adjusted Base Rate to be applicable to such LIBOR Balance upon the expiration of such Interest Period and to have given Bank notice of such selection.
- (iii) Conversion From Adjusted Base Rate. During any period in which any portion of the principal hereof bears interest at a rate based upon the Adjusted Base Rate, Borrower shall have the right, on any Business Day (the "Conversion Date"),

to

convert all or a portion of such principal amount from the Base Rate Balance to a LIBOR Balance by giving Bank an Interest Notice of such selection on or before such Conversion Date.

An Interest Notice may be in writing. All written Interest Notices are effective only upon receipt by Bank. Each Interest Notice shall be irrevocable and binding upon Borrower.

#### 7. Special Provisions For LIBOR Pricing.

a. Inadequacy of LIBOR Loan Pricing. If Bank determines that, by reason of circumstances affecting the interbank eurodollar market generally, deposits in Dollars (in the applicable amounts) are not being offered to United States financial institutions in the interbank eurodollar market for such Interest Period, or that the rate at which such Dollar deposits are being offered will not adequately and fairly reflect the cost to Bank of making or maintaining a LIBOR Balance for the applicable Interest Period, Bank shall forthwith give notice thereof to Borrower, whereupon until Bank notifies Borrower that the circumstances giving rise to such suspension no longer exist, (i) the right of Borrower to select an Interest Option based upon the LIBOR Rate shall be suspended, and (ii) Borrower shall be deemed to have converted each LIBOR Balance to the Base Rate Balance in accordance with the provisions hereof on the last day of the then-current Interest Period applicable to such LIBOR Balance.

b. Illegality. If the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for Bank to make or maintain a LIBOR Balance, Bank shall so notify Borrower. Upon receipt of such notice, Borrower shall be deemed to have converted any LIBOR Balance to the Base Rate Balance, on either (i) the last day of the then-current Interest Period applicable to such LIBOR Balance if Bank may lawfully continue to maintain and fund such LIBOR Balance to such day, or (ii) immediately, if Bank may not lawfully continue to maintain such LIBOR Balance to such day.

8. Extension, Place and Application of Payments. Should the principal of, or any interest on, this Note become due and payable on any day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day, and interest shall be payable with respect to such extension. All payments of principal of, and interest on, this Note shall be made in lawful money of the United States of America in immediately available funds. Payments made to Bank by Borrower hereunder shall be applied first to accrued but unpaid interest and then to outstanding principal.

9. Advances. Subject to the terms of this Note and the Loan Agreement, Borrower may request advances ("Advances") hereunder and make payments from time to time during the term of this Note, provided that it is understood and agreed that the aggregate principal amount outstanding from time to time hereunder shall not exceed the sum of the Total Principal Amount. The unpaid balance of this Note shall increase and decrease with each new Advance or payment hereunder as the case may be. This Note shall not be deemed terminated or canceled prior to the Maturity Date, although the entire principal balance hereof may from time to time be paid in full. Subject to the provisions of this Note and the Loan Agreement, Borrower may borrow, repay and reborrow hereunder from the date hereof until the Maturity Date. Each Advance hereunder shall be in an

amount not less than \$10,000.00 or an integral multiple thereof. If any Advance request is received by Bank on or prior to 11:00 a.m. (Fort Worth, Texas time) on funds designated to accrue interest at the Adjusted Base Rate, Bank shall make available at Bank's office in Fort Worth, Texas not later than 2:00 p.m. (Fort Worth, Texas time) on the day of such Advance request (or the date specified in such request), the amount of such request in immediately available funds. If any Advance request is received by Bank after 11:00 a.m. (Fort Worth, Texas time) on funds designated to accrue interest at the Adjusted Base Rate, Bank shall make available at Bank's office in Fort Worth, Texas not later than 2:00 p.m. (Fort Worth, Texas time) on the Business Day after the day of such request (or a later date if specified in such request), the amount of such request in immediately available funds. Each request for an Advance on funds designated to accrue interest at the Adjusted LIBOR Rate must be received by Bank on or before the Business Day upon which the Advance requested is desired by Borrower. Each request for an Advance hereunder must be accompanied by an Interest Notice for the funds to be advanced thereunder; provided, however, if an Interest Notice does not accompany an Advance request, Borrower shall be deemed to have designated the Adjusted Base Rate. Each request for an Advance by Borrower hereunder shall be irrevocable and binding on Borrower. An Advance request may be written or oral and Bank is authorized and directed to honor all telephonic requests for Advances from any person authorized to request Advances hereunder. Borrower agrees to indemnify and hold Bank harmless from any loss or liability incurred by Bank in connection with honoring any such telephonic or other oral requests for Advances. All written Advance requests are effective only upon receipt by Bank.

10. Loan Agreement. This Note is subject to the terms and provisions of the Loan Agreement, which is incorporated herein by reference for all purposes. The holder of this Note is entitled to the benefits provided in the Loan Agreement, and the holder of this Note shall be entitled to the benefits provided in the Loan Agreement and to all of the Liens, benefits, rights and privileges set forth in or otherwise arising under any and all agreements, instruments, certificates and other documents executed or delivered or contemplated to be executed or delivered in connection with the Loan Agreement or the transactions that are the subject matter thereof, as any of the same may be renewed, extended, restated, supplemented, increased, amended or otherwise modified from time to time. Unless otherwise expressly defined herein, terms that are used in this Note which begin with an initial capital letter (including, without limitation, the term "Loan Documents") shall have the meanings ascribed to such terms in the Loan Agreement. Reference is made to the Loan Agreement for a description of the collateral securing the payment of this Note, a statement of certain of the rights of the holder of this Note, certain terms and conditions upon which the Maturity Date may be extended and for other purposes provided herein. Reference is also made to the Loan Agreement for a statement of certain terms and provisions relevant to this Note but not contained herein including, without limitation, Defaults and Events of Default and prepayment terms. Neither the reference to the Loan Agreement nor the reference to any term or provisions thereof shall, however, affect or impair the absolute and unconditional obligation of the Maker to pay the principal of and interest on this Note when due and payable.

11. Prepayments; Consequential Loss. Any prepayment made hereunder shall be made together with all interest accrued but unpaid on this Note through the date of such prepayment. Contemporaneously with each prepayment of principal, Borrower shall give Bank written notice indicating whether such prepayment is to be applied to the Base Rate Balance or a particular LIBOR Balance. If such notice is not timely received by Bank, Borrower shall be deemed to have selected to prepay the Base Rate Balance and, if any sums remain after satisfying all of the Base Rate Balance, the remaining sums shall be applied to any LIBOR Balance(s) that Bank determines in its sole

discretion. If Borrower makes any payment of principal with respect to any LIBOR Balance on any day prior to the last day of the Interest Period applicable to such LIBOR Balance, Borrower shall reimburse Bank on demand the Consequential Loss incurred by Bank as a result of the timing of such payment. A certificate of Bank setting forth the basis for the determination of a Consequential Loss shall be delivered to Borrower and shall, in the absence of manifest error, be conclusive and binding as to such determination and amount.

12. Additional Costs . Borrower agrees to pay to Bank all Additional Costs within ten (10) days of receipt by Borrower from Bank of a statement setting forth the amount or amounts due and the basis for the determination from time to time of such amount or amounts, which statement shall be conclusive and binding upon Borrower absent manifest error. Failure on the part of Bank to demand compensation for any Additional Costs in any Interest Period shall not constitute a waiver of Bank's right to demand compensation for any Additional Costs incurred during any such Interest Period or in any other subsequent or prior Interest Period. The term "Additional Costs" shall mean such additional amount or amounts as Bank shall reasonably determine will compensate Bank for actual costs incurred by Bank in maintaining LIBOR Rates on the LIBOR Balances or any portion thereof as a result of any change, after the date of this Note, in applicable law, rule or regulation or in the interpretation or administration thereof by, or the compliance by Bank with any request or directive from, any domestic or foreign governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) or by any domestic or foreign court changing the basis of taxation of payments to Bank of the LIBOR Balances or interest on the LIBOR Balances or any portion, thereof at an Adjusted LIBOR Rate or any other fees or amounts payable under this Note or the Loan Agreement (other than taxes imposed on all or any portion of the overall net income of Bank by the State of Texas or the Federal government), or imposing, modifying or applying any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, credit extended by, or any other acquisition of funds for loans by Bank, or imposing on Bank, as the case may be, or on the London interbank market any other condition affecting this Note, the Loan Agreement or the LIBOR Balances so as to increase the cost of Bank making or maintaining Adjustable LIBOR Rates with respect to the LIBOR Balances or any portion thereof or to reduce the amount of any sum received or receivable by Bank under this Note or the Loan Agreement (whether of principal, interest or otherwise), by an amount deemed by Bank in good faith to be material, but without duplication for Reserve Requirement.

13. Notices. Except as otherwise specified herein, all notices and requests required or permitted hereunder shall be in writing and shall be deemed to have been given when personally delivered or, if mailed, two Business Days after deposited in a regularly maintained receptacle for the United States Postal Service, postage prepaid, registered or certified, return receipt requested, addressed to Borrower or Bank at the respective addresses determined in accordance with Section 9.1 of the Loan Agreement.

14. Legal Fees. If this Note is placed in the hands of any attorney for collection, or if it is collected through any legal proceeding at law or in equity or in bankruptcy, receivership or other court proceedings, Borrower agrees to pay all costs of collection including, but not limited to, court costs and reasonable attorneys' fees.

15. Waivers. Borrower and each surety, endorser, guarantor and any other party ever liable for payment of any sums of money payable on this Note, jointly and severally waive presentment and demand for payment, protest, notice of protest, intention to accelerate, acceleration and non-payment,

or other notice of default, and agree that their liability under this Note shall not be affected by any renewal or extension in the time of payment hereof, or in any indulgences, or by any release or change in any security for the payment of this Note, and hereby consent to any and all renewals, extensions, indulgences, releases or changes, regardless of the number of such renewals, extensions, indulgences, releases or changes; provided, however, this Note may not be amended or modified except by a written instrument signed by the Borrower and the holder hereof.

No waiver by Bank of any of its rights or remedies hereunder or under any other document evidencing or securing this Note or otherwise shall be considered a waiver of any other subsequent right or remedy of Bank; no delay or omission in the exercise or enforcement by Bank of any rights or remedies shall ever be construed as a waiver of any right or remedy of Bank; and no exercise or enforcement of any such rights or remedies shall ever be held to exhaust any right or remedy of Bank.

16. Remedies. Upon the occurrence of any Event of Default that is not cured within the time, if any, provided for in the Loan Documents, the holder hereof may, at its option, (i) declare the entire unpaid balance of principal and accrued but unpaid interest on this Note to be immediately due and payable, (ii) refuse to advance any additional amounts under this Note, (iii) foreclose all liens securing payment hereof, (iv) pursue any and all other rights, remedies and recourses available to the holder hereof, including but not limited to, any such rights, remedies or recourses under the Loan Documents, at law or in equity, or (v) pursue any combination of the foregoing.

17. Spreading. Any provision herein, or in any document securing this Note, or any other document executed or delivered in connection herewith, or in any other agreement or commitment, whether written or oral, expressed or implied, to the contrary notwithstanding, neither Bank nor any holder hereof shall in any event be entitled to receive or collect, nor shall or may amounts received hereunder be credited, so that Bank or any holder hereof shall be paid, as interest, a sum greater than the maximum amount permitted by applicable law to be charged to the person, partnership, firm or corporation primarily obligated to pay this Note at the time in question. If any construction of this Note or any document securing this Note, or any and all other papers, agreements or commitments, indicate a different right given to Bank or any holder hereof to ask for, demand or receive any larger sum as interest, such is a mistake in calculation or wording which this clause shall override and control, it being the intention of the parties that this Note and all other instruments securing the payment of this Note or executed or delivered in connection herewith shall in all things comply with the applicable law and proper adjustments shall automatically be made accordingly. In the event that Bank or any holder hereof ever receives, collects or applies as interest, any sum in excess of the Maximum Rate, if any, such excess amount shall be applied to the reduction of the unpaid principal balance of this Note, and if this Note is paid in full, any remaining excess shall be paid to Borrower. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the Maximum Rate, if any, Borrower and Bank or any holder hereof shall, to the maximum extent permitted under applicable law: (a) characterize any nonprincipal payment as an expense or fee rather than as interest, (b) exclude voluntary prepayments and the effects thereof, (c) "spread" the total amount of interest throughout the entire term of this Note; provided that if this Note is paid and performed in full prior to the end of the full contemplated term hereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Rate, if any, Bank or any holder hereof shall refund to Borrower the amount of such excess, or credit the amount of such excess against the aggregate unpaid principal balance of all advances made by the Bank or any holder hereof under this Note at the time in question.

18. Choice of Law. This Note is being executed and delivered, and is intended to be performed in the State of Texas. Except to the extent that the laws of the United States may apply to the terms hereof, the substantive laws of the State of Texas shall govern the validity, construction, enforcement and interpretation of this Note. In the event of a dispute involving this Note or any other instruments executed in connection herewith, the undersigned irrevocably agrees that venue for such dispute shall lie in any court of competent jurisdiction in Tarrant County, Texas.

19. Renewal. This Note renews the principal and accrued unpaid interest as of the date hereof under that certain Revolving Credit Note ("Prior Note") dated May 12, 1995, in the stated principal amount of \$10,000,000 executed by Maker and payable to the order of Bank. The first payment of interest under this Note shall include accrued and unpaid interest which accrued prior to the date hereof under the Prior Note.

**PMC COMMERCIAL TRUST**

*By: /s/ Jan F. Salit*  
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*Name: Jan F. Salit*  
-----  
*Title: Executive Vice President*  
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**EXHIBIT 10.7**

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**NOTE PURCHASE AGREEMENT**

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**DATED AS OF MARCH 12, 1996**

**\$29,500,000**  
**PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP**  
**FIXED RATE LOAN BACKED NOTES, SERIES 1996-1**

(PPN: 69348\* AA 4)

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Annex 1	--	Purchaser Information
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NOTE PURCHASE AGREEMENT

\$29,500,000  
PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP  
FIXED RATE LOAN BACKED NOTES, SERIES 1996-1

Dated as of March 12,1996

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\_\_\_\_\_

Ladies and Gentlemen:

PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP, a Delaware limited partnership (the "ISSUER"), and PMC COMMERCIAL TRUST, a Texas real estate investment trust ("PCC"), hereby agree with you as follows:

1. ISSUANCE AND SALE OF NOTES, ETC.

1.1 ISSUANCE OF NOTES.

Pursuant to the Indenture, the Issuer will execute and deliver to the Trustee, and cause the Trustee to authenticate and deliver, \$29,500,000 in aggregate principal amount of the Issuer's Fixed Rate Loan Backed Notes, Series 1996-1 (collectively, the "NOTES").

1.2 THE CLOSING.

- (a) SALE AND PURCHASE OF NOTES. The Issuer hereby agrees to sell to you and you hereby agree to purchase from the Issuer, in accordance with the provisions hereof, the aggregate principal amount of Notes set forth below your name on Annex 1 at one hundred percent (100%) of the principal amount thereof.
- (b) THE CLOSING. The closing (the "CLOSING") of the Issuer's sale of Notes will be held on March 12, 1996 (the "CLOSING DATE") at 9:00 a.m., local time, at the offices

of Winstead Sechrest & Minick P.C., 5400 Renaissance Tower, 1201 Elm Street, Dallas, Texas 75270. At the Closing, the Issuer will cause the Trustee to deliver to you one or more Notes (as indicated below your name on Annex 1), in the denominations indicated on Annex 1, in the aggregate principal amount of your purchase, dated the Closing Date and payable to you or payable as indicated on Annex 1, against payment by federal funds wire transfer in immediately available funds of the purchase price thereof, as directed by the Issuer on Annex 2.

(c) **OTHER PURCHASERS.** Contemporaneously with the execution and delivery hereof, the Issuer and PCC are entering into a separate Note Purchase Agreement identical (except for the name and signature of the purchaser) hereto (this Agreement and such other separate Note Purchase Agreements, collectively, the "NOTE PURCHASE AGREEMENTS") with each other purchaser (collectively, the "OTHER PURCHASERS") listed on Annex 1, providing for the sale to each Other Purchaser of Notes in the aggregate principal amount set forth below its name on such Annex. The sales of Notes to you and to each Other Purchaser are to be separate sales.

### 1.3 FAILURE TO TENDER, FAILURE OF CONDITIONS.

If at the Closing the Issuer fails to cause the Trustee to tender to you the Notes to be purchased by you thereat, or if the conditions specified in Section 3 and Attachment B to be fulfilled at the Closing have not been fulfilled, you may thereupon elect to be relieved of all further obligations hereunder. Nothing in this Section 1.3, Section 3 or Attachment B shall operate to relieve the Issuer or PCC from any of their respective obligations hereunder or to waive any of your rights against the Issuer or PCC.

### 1.4 EXPENSES.

(a) **GENERALLY.** Whether or not the Notes are sold, the Issuer will promptly (and in any event within 30 days of receiving any statement or invoice therefor) pay all fees, expenses and costs relating to the purchase and sale of the Notes and the execution and delivery of the Transaction Documents and any amendments or modifications thereto, including, but not limited to:

- (i) the cost of reproducing the Transaction Documents and the other documents delivered in connection with the Closing;
- (ii) the reasonable fees and disbursements of Hebb & Gitlin, your special counsel, incurred in connection therewith;
- (iii) the cost of delivering to your home office or custodian bank, insured to your satisfaction, the Notes purchased by you at the Closing; and

(iv) the out-of-pocket fees, expenses and costs incurred in complying with each of the conditions to closing specified in Section 3 and Attachment B.

(b) COUNSEL. Without limiting the generality of the foregoing, it is agreed and understood that the Issuer will pay, at the Closing, the statement for reasonable fees and disbursements of your special counsel presented at the Closing and the Issuer will also pay upon receipt of any statement therefor each additional statement for reasonable fees and disbursements of your special counsel rendered after the Closing in connection with the issuance and sale of the Notes and the other matters referred to in Section 1.4(a).

(c) SURVIVAL. The obligations of the Issuer under this Section 1.4 shall survive the payment of the Notes and the termination hereof.

## 2. REPRESENTATIONS AND WARRANTIES

### 2.1 REPRESENTATIONS AND WARRANTIES OF THE ISSUER AND PCC.

To induce you to enter into this Agreement and to purchase and pay for the Notes to be delivered to you at the Closing, the Issuer and PCC make the representations and warranties set forth in Attachment A, effective as of the date of the Issuer's and PCC's execution of this Agreement and as of the Closing Date, which are incorporated herein by reference with the same force and effect as though set forth herein in full.

### 2.2 REPRESENTATIONS OF PURCHASER.

You represent to the Issuer and PCC that:

(a) you are an "insurance company" (as such term is defined in section 2(13) of the Securities Act and you are purchasing the Notes listed on Annex 1 below your name for your own account, or for the account of one or more separate accounts maintained by you, for investment purposes only and with no present intention of distributing the Notes or any part thereof, but without prejudice to your right at all times to (i) sell or otherwise dispose of all or any part of the Notes in compliance with the Securities Act and the requirements of the Indenture and (ii) have control over the disposition of all of your assets to the fullest extent required by any applicable insurance law; and

(b) at least one of the following statements is accurate as to each source of funds (a "SOURCE") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(i) the Source is your general account assets and all requirements for an exemption under Department of Labor Prohibited Transaction Exemption 95-60 (60 F.R. 35925, July 12, 1995) have been satisfied, provided that in making such

representation you are relying on the Issuer's and PCC's representations set forth in Section A.4(a) of Attachment A and the related disclosure of "employee benefit plans" set forth in Part A.4(a) of Annex 3; or

(ii) the Source is a "separate account" (as defined in section 3 of ERISA) that is comprised of one or more employee benefit plans each of which

(A) has a participation of less than 10% in such separate account, or

(B) has been identified by you to the Issuer in writing and with respect to which the Issuer and PCC hereby represents and warrants that, as of the Closing Date, neither the Issuer, PCC nor any ERISA Affiliate is a "party in interest" (as defined in section 3 of ERISA) or a "disqualified person" (as defined in section 4975 of the IRC) with respect to any plan so identified.

### 3. CLOSING CONDITIONS

Your obligations under this Agreement, including the obligation to purchase and pay for the Notes to be delivered to you at the Closing, are subject to the conditions precedent set forth in Attachment B, which are incorporated herein by reference with the same force and effect as though set forth herein in full, and the failure of such conditions to be satisfied shall, at your election, relieve you of all such obligations.

### 4. INTERPRETATION OF THIS AGREEMENT

#### 4.1 TERMS DEFINED.

As used in this Agreement and the Annexes, Attachments and Exhibits hereto, the following terms have the meanings specified below:

CLOSING -- has the meaning specified in Section 1.2(b).

CLOSING DATE -- has the meaning specified in Section 1.2(b).

CODE -- has the meaning specified in Schedule 1 to the Indenture.

CONTRIBUTION AGREEMENT -- means the Contribution Agreement, dated as of March 12, 1996, between the Issuer and PCC, as it may be amended, supplemented or otherwise modified from time to time.

ERISA -- means the Employee Retirement Income Security Act of 1974, as amended from time to time.

ERISA AFFILIATE -- means PCC and all corporations, trades or businesses (whether or not incorporated) and other Persons that, together with PCC, are treated as a single employer under the section 414(b), section 414(c), section 414(m) or section 414(o) of the Code or Title I or Title IV of ERISA.

GENERAL PARTNER -- has the meaning specified in Schedule 1 to the Indenture.

INDENTURE -- means the Trust Indenture, dated as of March 12, 1996, between the Issuer and Bank One Trust Company, NA as Trustee, as it may be amended, supplemented or otherwise modified from time to time.

ISSUER -- has the meaning specified in the introductory paragraph.

LOAN FILE -- has the meaning specified in Schedule 1 to the Indenture.

MATERIAL ADVERSE EFFECT -- means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Issuer or PCC, (b) the ability of the Issuer or PCC to perform their respective obligations under the Transaction Documents or (c) the validity or enforceability of any of the Transaction Documents.

NOTEHOLDER -- has the meaning specified in Schedule 1 to the Indenture.

NOTE PURCHASE AGREEMENTS -- has the meaning specified in Section 1.2(c).

NOTE REGISTER -- has the meaning specified in Schedule 1 to the Indenture.

NOTES -- has the meaning specified in Section 1.1.

OTHER PURCHASERS-- has the meaning specified in Section 1.2(c).

OUTSTANDING NOTE AMOUNT -- has the meaning specified in Schedule 1 to the Indenture.

PCC -- has the meaning specified in the introductory paragraph.

PERSON -- has the meaning specified in Schedule 1 to the Indenture.

PLACEMENT AGENT -- has the meaning specified in Schedule 1 to the Indenture.

PLACEMENT MEMORANDUM -- means the Preliminary Confidential Private Placement Offering Memorandum, dated November 13, 1995, with respect to the Notes.

**PURCHASERS -- means you and the Other Purchasers.**

REGISTRAR -- has the meaning specified in Schedule 1 to the Indenture.

REQUIRED NOTEHOLDERS -- has the meaning specified in Schedule 1 to the Indenture.

SECURITIES ACT -- means the Securities Act of 1933, as amended.

SERVICER -- has the meaning specified in Schedule 1 to the Indenture.

SERVICING AGREEMENT -- means the Servicing Agreement, dated as of March 12, 1996, among Bank One Trust Company, NA as Trustee and Supervisory Servicer, the Issuer and PCC as Servicer, as it may be amended, supplemented or otherwise modified from time to time.

SOURCE -- has the meaning specified in Section 2.2(b).

SUPERVISORY SERVICER -- has the meaning specified in Schedule 1 to the Indenture.

SUPERVISORY SERVICING AGREEMENT -- means the Supervisory Servicing Agreement, dated as of March 12, 1996, among Bank One Trust Company, NA, as Trustee and Supervisory Servicer, the Issuer and PCC as Servicer, as it may be amended, supplemented or otherwise modified from time to time.

TRANSACTION DOCUMENTS -- has the meaning specified in Schedule 1 to the Indenture.

TRUSTEE -- has the meaning specified in Schedule 1 to the Indenture.

TRUST ESTATE -- has the meaning specified in Schedule 1 to the Indenture.

#### 4.2 GOVERNING LAW.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAW OF THE STATE OF TEXAS, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

#### 4.3 SECTION HEADINGS AND TABLE OF CONTENTS AND CONSTRUCTION.

(a) SECTION HEADINGS AND TABLE OF CONTENTS, ETC. The titles of the Sections of this Agreement and the Table of Contents of this Agreement appear as a matter of convenience only, do not constitute a part hereof and shall not affect the construction hereof. The words "herein," "hereof," "hereunder" and "hereto" refer to this Agreement as a whole and not to any particular Section or other subdivision. Unless otherwise

specified, references to Sections are to Sections of this Agreement, references to Annexes are to Annexes to this Agreement, references to Attachments are to Attachments to this Agreement and references to Exhibits are to Exhibits to this Agreement.

(b) CONSTRUCTIONS. Each provision contained herein shall be construed (absent an express contrary provision herein) as being independent of each other provision contained herein, and compliance with any one provision shall not (absent such an express contrary provision) be deemed to excuse compliance with one or more other provisions.

## 5. MISCELLANEOUS

### 5.1 COMMUNICATIONS.

All notices, requests, complaints, demands and other communications under the Note Purchase Agreements will be given in the manner and with the effect provided in Section 12.4 of the Indenture or, in the case of any communication to PCC, in the manner and with the effect provided in Section 14 of the Contribution Agreement.

### 5.2 REPRODUCTION OF DOCUMENTS.

The Transaction Documents and all related documents, including (a) consents, waivers, amendments, supplements and modifications that may subsequently be executed, (b) documents received by you at the Closing of your purchase of the Notes (except the Notes themselves) and (c) financial statements, certificates, reports and other information previously or subsequently furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Issuer and PCC each agree and stipulate that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by you in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

### 5.3 SUCCESSORS AND ASSIGNS.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto. The provisions of the Note Purchase Agreements are intended to be for the benefit of the Noteholders from time to time, and the applicable Note Purchase Agreement shall be enforceable by any such Noteholder, whether or not an express assignment of rights under any Note Purchase Agreement has been made by any Purchaser or its successor or assign.



#### 5.4 AMENDMENT AND WAIVER.

The Note Purchase Agreements may be amended, and the observance of any term of the Note Purchase Agreements may be waived, with (and only with) the written consent of the Issuer, PCC and the Required Noteholders (provided that no such amendment or waiver of any of the provisions of Section 1.2(a), Section 2, Section 3, Attachment A, Attachment B or any defined term as used therein shall be effective as to you unless consented to by you in writing, and further, that no such amendment or waiver shall, without the written consent of the Noteholders holding 100% of the Outstanding Note Amount, amend this Section 5.4). Executed or complete and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 5.4 shall be delivered by the Issuer to each Noteholder promptly following the date on which such amendment or waiver shall become effective.

#### 5.5 SURVIVAL.

The Issuer and PCC agree that the representations, warranties and agreements made or deemed to be made by them in the Transaction Documents or in any certificate or other instrument delivered pursuant thereto on or prior to the Closing Date have been relied upon by you, notwithstanding any investigation heretofore or hereafter made by you or on your behalf, without which representations, warranties and agreements you would not have executed and delivered this Agreement, and that such representations, warranties, and agreements shall survive the delivery and payment for the Notes and shall continue in full force and effect for your benefit and the benefit of any subsequent Noteholders until all Notes are paid in full.

#### 5.6 DUPLICATE ORIGINALS, EXECUTION IN COUNTERPART, ETC.

Two or more duplicate originals hereof may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument. This Agreement may be executed in one or more counterparts and shall be effective when at least one counterpart shall have been executed by each party hereto, and each set of counterparts that, collectively, show execution by each party hereto shall constitute one duplicate original.

**[REMAINDER OF PAGE INTENTIONALLY BLANK; NEXT PAGE IS SIGNATURE PAGE.]**

If this Agreement is satisfactory to you, please so indicate by signing the acceptance on a counterpart hereof and returning such counterpart to the Issuer, whereupon this Agreement shall become binding among us in accordance with its terms.

Very truly yours,

**PMC COMMERCIAL RECEIVABLE  
LIMITED PARTNERSHIP**

By: PMC Commercial Corp.,  
its General Partner

By: \_\_\_\_\_  
Name: Jan F. Salit  
Title: Executive Vice President

**PMC COMMERCIAL TRUST**

By: \_\_\_\_\_  
Name: Jan F. Salit  
Title: Executive Vice President

(SIGNATURE PAGE FOR NOTE PURCHASE AGREEMENT IN CONNECTION WITH THE SALE OF PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP FIXED RATE LOAN BACKED NOTES, SERIES 1996-1]

Accepted:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By:  
Name:  
Title:

(SIGNATURE PAGE FOR NOTE PURCHASE AGREEMENT IN CONNECTION WITH THE SALE OF PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP FIXED RATE LOAN BACKED NOTES, SERIES 1996-1]

THIS NOTE WAS OFFERED PURSUANT TO EXEMPTIONS FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), AND STATE SECURITIES LAWS, AND HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AUTHORITY. NO TRANSFER OR SALE OF THIS NOTE SHALL BE MADE UNLESS SUCH TRANSFER OR SALE COMPLIES WITH THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAW. IN THE EVENT THAT THE TRANSFER OF THIS NOTE IS TO BE MADE, BANK ONE TRUST COMPANY, NA (THE "TRUSTEE") SHALL REQUIRE A CERTIFICATE, ACCEPTABLE TO AND IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE TRUSTEE, THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION, DESCRIBING THE APPLICABLE EXEMPTION AND THE BASIS THEREFOR, FROM SAID ACT AND LAWS OR IS BEING MADE PURSUANT TO SAID ACT AND LAWS. IF SUCH CERTIFICATE IS NOT IN THE FORM SPECIFIED IN THE INDENTURE, THE TRUSTEE MAY, PURSUANT TO SECTION 2.8(c) OF THE INDENTURE, REQUIRE AN OPINION OF COUNSEL TO ESTABLISH COMPLIANCE WITH THE ACT AND OTHER APPLICABLE STATE SECURITIES LAWS.

No. \_\_\_\_\_ \$ \_\_\_\_\_

**PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP  
FIXED RATE LOAN BACKED NOTES  
SERIES 1996-1**

MATURITY DATE	ISSUE DATE	NOTE RATE	PRIVATE PLACEMENT NUMBER
-----	-----	-----	-----
April 15, 2016	March 12, 1996	6.72%	69348* AA 4

**REGISTERED HOLDER:** \_\_\_\_\_

**PRINCIPAL SUM:** \$ \_\_\_\_\_

PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP, a Delaware limited partnership (herein called the "Issuer"), for value received, hereby promises to pay to the registered owner identified above or registered assigns (the "Holder" or "Noteholder"), on or before the Maturity Date set forth above (subject to any right of prior payment hereinafter mentioned), the principal sum identified above in lawful money of the United States of America, and to pay interest thereon in like money, until payment of such principal sum, at the Note Rate per annum set forth above. Pursuant to the terms of the Trust Indenture dated as of March 12, 1996 (as the same may be amended and supplemented, the "Indenture") between the Issuer and Bank One Trust Company, NA, as Trustee (the "Trustee"), the Issuer shall pay the Holder on the first Business Day of each month, commencing on April 1, 1996 or the date this Note is due upon acceleration and ending on the Maturity Date set forth above (each such date herein called a "Payment Date"), the Required Principal Payment (as defined in the Indenture), accrued interest and, if applicable, the Make-Whole Amount (as defined in the Indenture), if any. This Note shall accrue interest during each Interest Accrual Period at the Note Rate. The term "Interest Accrual Period" means, with respect to a Payment Date, the period from and including the immediately prior Payment Date to but excluding the Payment Date first referred to in this definition (or, in the case of the first Payment Date, from and including the Closing Date to but excluding the first Payment Date). This Note shall also accrue interest on unpaid principal and, to the extent permitted by applicable law, accrued interest to the extent such amount has not been distributed to the owner of the Note when due at the Default Rate. Principal payments will be made on each Payment Date from funds on deposit under the herein defined Indenture.

Payments to the Holder shall be made by check mailed to the Holder's address as it appears on the note register maintained by the registrar appointed under the Indenture on the relevant Record Date (or, in the case of each Initial Purchaser or Affiliate thereof or any Holder of Notes having an aggregate

initial principal amount of not less than \$1,000,000, by wire transfer of immediately available funds to the account of such Noteholder, if such Noteholder shall have given the Trustee appropriate written notice of such account at least five Business Days prior to the Record Date immediately preceding the Payment Date). Notwithstanding any provision herein to the contrary, the Trustee shall make all distributions on or with respect to the Notes to the Initial Purchasers (as defined in the Indenture), so long as the Initial Purchasers shall be the registered owners of the Notes (or any Note exchanged therefor), by bank wire or interbank transfer of federal or other immediately available funds to the account of the Initial Purchasers specified in Annex I to the Purchase Agreement (as defined in the Indenture) (or such other account as the Initial Purchasers may from time to time designate in writing), together with sufficient information (including interest rate, designation of the Note and the issuer thereof, total payment and principal and interest portions of such payment) to identify the source of such payment, including the nominee names in which the Note may be held.

This Note is one of a duly authorized issue of notes of the Issuer designated as PMC Commercial Limited Partnership Fixed Rate Loan Backed Notes, Series 1996-1" (herein called the "Notes"), in the initial aggregate principal amount of \$29,500,000 issued under and secured by the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Notes, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Issuer thereunder, to all of the provisions of which Indenture the holder of this Note, by acceptance hereof, assents and agrees.

The Issuer hereby certifies that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Note do exist, have happened and have been performed in due time, form and manner as required by the applicable laws.

This Note shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Trustee. The Notes are issuable only as fully registered Notes without coupons. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Notes may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Notes of the same series of other authorized denominations.

The owner of this Note shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

The Notes are subject to redemption on any Payment Date, in whole, but not in part, at the option of the Issuer at a redemption price equal to 100% of the Outstanding Note Amount (as defined in the Indenture) plus (a) interest accrued during the applicable Interest Accrual Period and any and all past-due interest, and (b) the Make-Whole Amount, if any, at any time upon notice as provided in the Indenture.

If an Event of Default shall occur and be continuing with respect to the Notes, and if the Required Noteholders (as defined in the Indenture) have requested the Trustee to accelerate the Notes, the Trustee shall declare the outstanding principal of all the Notes, accrued and unpaid interest thereon and the Make-Whole Amount, if any, to be immediately due and payable, by a notice in writing to the Issuer, the Noteholders, the Servicer (as defined in the Indenture) and the Supervisory Servicer (as defined in the Indenture), and upon any such declaration such principal, interest and Make-Whole Amount shall become immediately due and payable. Under certain circumstances specified in the Indenture, such amounts shall immediately become due and payable without any such declaration. The Trustee may sell the Trust Estate or retain the Trust Estate intact, in either case in the manner and with the effect provided in the Indenture.

The Indenture permits the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of Holders of the Notes under the Indenture at any time by the Issuer with the consent of the Required Noteholders (as defined in the Indenture) and in certain instances only with the

consent of all Noteholders. The Indenture also contains provisions permitting Holders of specified percentages in aggregate outstanding principal amount, on behalf of Holders of all the Notes, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note (or any one or more predecessor Notes) shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note. The Indenture contains provisions permitting the Issuer and the Trustee to execute supplemental indentures adding provisions to, or changing or eliminating any of the provisions of, the Indenture, subject to the limitations set forth in the Indenture.

The term "Issuer" as used in this Note includes any successor to the Issuer under the Indenture. No officer, agent or employee of the Issuer or of any Affiliate of the Issuer, shall in any event be subject to any personal liability for any payments or other amounts due in respect of the Notes or in respect of any obligations of the parties under any of the Transaction Documents.

This Note is transferable by the registered owner hereof, in person, or by its attorney duly authorized in writing, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Note. Upon such transfer a new fully registered Note or Notes, of the same series and of authorized denomination or denominations, for the same aggregate principal amount, will be issued to the transferee in exchange herefor. The Issuer and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Issuer and the Trustee shall not be affected by any notice to the contrary.

IN WITNESS WHEREOF, PMC COMMERCIAL RECEIVABLE LIMITED PARTNERSHIP has caused this Note to be executed in its name by the manual or facsimile signature of the President, any Executive Vice President or the Chief Financial Officer of its General Partner and attested by the manual or facsimile signature of the Secretary or Assistant Secretary of its General Partner, all as of the Issue Date set forth above.

**PMC COMMERCIAL RECEIVABLE  
LIMITED PARTNERSHIP**

By: PMC Commercial Corp.,  
its General Partner

By:  
**Jan F. Salit, Executive Vice President**

**Attest:**

By:  
  
**Barry N. Berlin, Treasurer**

**CERTIFICATE OF AUTHENTICATION**

This is one of the Notes described in the within-mentioned Indenture and has been authenticated on this date: March 12, 1996.

**BANK ONE TRUST COMPANY, NA, as Trustee**

By:  
**Authorized Signatory**

**[FORM OF ASSIGNMENT]**

For value received, the undersigned do(es) hereby sell, assign and transfer unto the within Note and do(es) hereby irrevocably constitute and appoint attorney, to transfer the same on the books of the Trustee, with full power of substitution in the premises.

Dated:

---

(Signature)

Social Security Number,  
Taxpayer Identification  
Number or other Identifying  
Number of Assignee:

Notice: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Note in every particular, without alteration or enlargement or any change whatsoever.

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1995 FORM 10K OF PMC COMMERCIAL TRUST AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	DEC 31 1995
CASH	33,504
SECURITIES	173,679
RECEIVABLES	59,539,609 <sup>1</sup>
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	0
PP&E	0
DEPRECIATION	0
TOTAL ASSETS	59,797,275 <sup>2</sup>
CURRENT LIABILITIES	3,694,243 <sup>3</sup>
BONDS	7,920,000
COMMON	48,361,254
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	(178,222)
TOTAL LIABILITY AND EQUITY	59,797,275
SALES	0
TOTAL REVENUES	6,230,415
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	1,112,688
LOSS PROVISION	0
INTEREST EXPENSE	221,703
INCOME PRETAX	4,896,024
INCOME TAX	0
INCOME CONTINUING	4,896,024
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,896,024
EPS PRIMARY	1.42
EPS DILUTED	1.42

<sup>1</sup> Includes current and long term portion of all loans receivable and related interest receivable

<sup>2</sup> Includes the following items not included above: (i) Other receivables \$26,382 (ii) Organization costs, net 24,101 ----- \$50,483 =====

Includes the following: (i) Dividends payable \$1,518,896 (ii) Accounts payable 14,175 (iii) Interest payable 56,267 (iv) Borrower advances

<sup>3</sup> 579,133 (v) Unearned Commitment fees 599,978 (vi) Due to affiliates 844,786 (vii) Unearned construction monitoring fees 81,008 -----  
\$3,694,243 =====

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**End of Filing**

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