

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

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998

OR

[ ] 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

75-6446078

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

-----  
17290 Preston Road, 3rd Floor, Dallas, TX 75252 (972) 349-3200  
-----  
(Address of principal executive offices) (Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO  
-----

As of May 1, 1998, Registrant had outstanding 6,509,231 Common Shares of Beneficial Interest, par value \$.01 per share.

## PMC COMMERCIAL TRUST AND SUBSIDIARIES

## INDEX

| PART I.  | Financial Information   | PAGE NO.<br>----- |
|----------|---|-------------------|
| Item 1.  | Financial Statements  |                   |
|          | Consolidated Balance Sheets -<br>March 31, 1998 (Unaudited) and December 31, 1997                 | 2                 |
|          | Consolidated Statements of Income (Unaudited) -<br>Three Months Ended March 31, 1998 and 1997     | 3                 |
|          | Consolidated Statements of Cash Flows (Unaudited) -<br>Three Months Ended March 31, 1998 and 1997 | 4                 |
|          | Notes to Consolidated Financial Statements<br>(Unaudited)   | 5                 |
| Item 2.  | Management's Discussion and Analysis of<br>Financial Condition and Results of Operations          | 7                 |
| Item 3.  | Quantitative and Qualitative Disclosure About<br>Market Risk                                      | 12                |
| PART II. | Other Information   |                   |
| Item 6.  | Exhibits and Reports on Form 8-K  | 13                |

PART I

Financial Information

ITEM 1.

Financial Statements

PMC COMMERCIAL TRUST AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)

|   | March 31,<br>1998 | December 31,<br>1997 |
|---|-------------------|----------------------|
|   | -----             | -----                |
|   | (Unaudited)       |                      |
| <b>ASSETS</b>   |                   |                      |
| <b>INVESTMENTS:</b>   |                   |                      |
| Loans receivable, net .....   | \$ 113,213        | \$ 109,132           |
| Cash equivalents .....  | 283               | 32                   |
| Restricted investments .....  | 1,507             | 5,766                |
|   | -----             | -----                |
| <b>TOTAL INVESTMENTS .....</b>  | <b>115,003</b>    | <b>114,930</b>       |
|   | -----             | -----                |
| <b>OTHER ASSETS:</b>  |                   |                      |
| Cash .....  | 466               | 4                    |
| Interest receivable .....   | 683               | 654                  |
| Deferred borrowing costs, net .....   | 206               | 280                  |
| Other assets, net .....   | 43                | 9                    |
|   | -----             | -----                |
| <b>TOTAL OTHER ASSETS .....</b>   | <b>1,398</b>      | <b>947</b>           |
|   | -----             | -----                |
| <b>TOTAL ASSETS .....</b>   | <b>\$ 116,401</b> | <b>\$ 115,877</b>    |
|   | =====             | =====                |
| <b>LIABILITIES AND BENEFICIARIES' EQUITY</b>  |                   |                      |
| <b>LIABILITIES:</b>   |                   |                      |
| Notes payable .....   | \$ 16,754         | \$ 18,721            |
| Borrower advances .....   | 1,511             | 1,431                |
| Dividends payable .....   | 2,830             | 2,749                |
| Unearned commitment fees .....  | 838               | 948                  |
| Due to affiliates .....   | 774               | 344                  |
| Unearned construction monitoring fees .....   | 56                | 67                   |
| Interest payable .....  | 154               | 182                  |
| Other liabilities .....   | 220               | 193                  |
|   | -----             | -----                |
| <b>TOTAL LIABILITIES .....</b>  | <b>23,137</b>     | <b>24,635</b>        |
|   | -----             | -----                |
| Commitments and contingencies   |                   |                      |
| <b>BENEFICIARIES' EQUITY:</b>   |                   |                      |
| Common shares of beneficial interest; authorized<br>100,000,000 shares of \$0.01 par value; 6,506,600 and<br>6,392,518 shares issued and outstanding at March 31, 1998<br>and December 31, 1997, respectively ..... | 65                | 64                   |
| Additional paid-in capital .....  | 93,883            | 91,687               |
| Cumulative net income .....   | 28,332            | 25,677               |
| Cumulative dividends .....  | (29,016)          | (26,186)             |
|   | -----             | -----                |
| <b>Total beneficiaries' equity .....</b>  | <b>93,264</b>     | <b>91,242</b>        |
|   | -----             | -----                |
| <b>TOTAL LIABILITIES AND BENEFICIARIES' EQUITY .....</b>  | <b>\$ 116,401</b> | <b>\$ 115,877</b>    |
|   | =====             | =====                |
| <b>Net asset value per share .....</b>  | <b>\$ 14.31</b>   | <b>\$ 14.27</b>      |
|   | =====             | =====                |

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

PMC COMMERCIAL TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except share and per share data)

|  | Three Months Ended March 31, |           |
|--|------------------------------|-----------|
|  | 1998                         | 1997      |
|  | (Unaudited)                  |           |
| REVENUES:                                      |                              |           |
| Interest income - loans .....                  | \$ 3,083                     | \$ 2,777  |
| Interest and dividends - other investments ... | 65                           | 287       |
| Other income .....                             | 356                          | 100       |
|  | -----                        | -----     |
| TOTAL REVENUES .....                           | 3,504                        | 3,164     |
|  | -----                        | -----     |
| EXPENSES:                                      |                              |           |
| Interest .....                                 | 405                          | 444       |
| Advisory and servicing fees to affiliate, net. | 381                          | 331       |
| General and administrative .....               | 32                           | 31        |
| Provision for loan losses .....                | 10                           | 20        |
| Legal and accounting fees .....                | 21                           | 14        |
|  | -----                        | -----     |
| TOTAL EXPENSES .....                           | 849                          | 840       |
|  | -----                        | -----     |
| NET INCOME .....                               | \$ 2,655                     | \$ 2,324  |
|  | =====                        | =====     |
| Weighted average shares outstanding .....      | 6,454,344                    | 6,127,042 |
|  | =====                        | =====     |
| Basic and diluted earnings per share .....     | \$ 0.41                      | \$ 0.38   |
|  | =====                        | =====     |

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

PMC COMMERCIAL TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 1998                         | 1997      |
|   | (Unaudited)                  |           |
| Cash flows from operating activities:   |                              |           |
| Net income .....  | \$ 2,655                     | \$ 2,324  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Accretion of discount and fees .....  | (138)                        | (153)     |
| Amortization of organization and borrowing costs .....                            | 76                           | 13        |
| Provision for loan losses .....   | 10                           | 20        |
| Commitment fees collected, net .....  | 203                          | 285       |
| Construction monitoring fees collected, net .....                                 | 15                           | 28        |
| Changes in operating assets and liabilities:                                      |                              |           |
| Accrued interest receivable .....   | (28)                         | 32        |
| Other assets .....  | (36)                         | (23)      |
| Interest payable .....  | (28)                         | (1)       |
| Borrower advances .....   | 80                           | (587)     |
| Due to affiliates .....   | 430                          | (255)     |
| Other liabilities .....   | 26                           | (25)      |
| Net cash provided by operating activities .....                                   | 3,265                        | 1,658     |
| Cash flows from investing activities:   |                              |           |
| Loans funded .....  | (9,437)                      | (13,955)  |
| Principal collected .....   | 5,145                        | 1,544     |
| Release of (investment in) restricted investments, net .....                      | 4,259                        | (438)     |
| Net cash used in investing activities .....                                       | (33)                         | (12,849)  |
| Cash flows from financing activities:   |                              |           |
| Proceeds from issuance of common shares .....                                     | 2,072                        | 1,250     |
| Payment of dividends .....  | (2,624)                      | (2,388)   |
| Payment of principal on notes payable .....                                       | (1,967)                      | (240)     |
| Net cash used in financing activities .....                                       | (2,519)                      | (1,378)   |
| Net increase (decrease) in cash and cash equivalents .....                        | 713                          | (12,569)  |
| Cash and cash equivalents, beginning of period .....                              | 36                           | 25,984    |
| Cash and cash equivalents, end of period .....                                    | \$ 749                       | \$ 13,415 |
| Supplemental disclosures:   |                              |           |
| Dividends reinvested .....  | \$ 125                       | \$ 107    |
| Dividends declared, not paid .....  | \$ 2,830                     | \$ 2,466  |
| Interest paid .....   | \$ 358                       | \$ 450    |

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

PMC COMMERCIAL TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying consolidated balance sheet of PMC Commercial Trust ("PMC Commercial") and its subsidiaries (collectively the "Company") as of March 31, 1998 and the consolidated statements of income and cash flows for the three months ended March 31, 1998 and 1997 have not been audited by independent accountants. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position at March 31, 1998, and the results of operations and cash flows for the three months ended March 31, 1998 and 1997. These adjustments are of a normal recurring nature.

Certain notes and other information have been omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1997 Annual Report on Form 10-K.

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 period. Actual results could differ from those estimates.

The results for the three months ended March 31, 1998 are not necessarily indicative of future financial results.

## NOTE 2. BASIS FOR CONSOLIDATION

During 1996, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership ("PCR" or "the Partnership"), and PMC Commercial Corp., a Delaware corporation, were formed. PMC Commercial Corp. is the general partner for PCR. The consolidated financial statements include the accounts of PMC Commercial, PMC Commercial Corp. and PCR. PMC Commercial owns 100% of PMC Commercial Corp. and directly or indirectly all of the partnership interests of PCR (see Note 5).

## NOTE 3. DIVIDENDS TO BENEFICIARIES

During January 1998, the Company paid \$0.430 per share in dividends to common shareholders of record on December 31, 1997. During March 1998, the Company declared a \$0.435 per share dividend to common shareholders of record on March 31, 1998 which was paid on April 13, 1998.

## NOTE 4. DUE TO AFFILIATES

Pursuant to an investment management agreement (the "Investment Management Agreement") between the Company and PMC Advisers, Ltd., an affiliated entity (the "Investment Manager"), the Company incurred fees of approximately \$422,000 for the three months ended March 31, 1998. Of the servicing and advisory fees incurred under the Investment Management Agreement during the three months ended March 31, 1998, \$41,000 has been offset against commitment fees as a direct cost of originating loans.

Pursuant to the amended Investment Management Agreement, the quarterly servicing and advisory fee (the "Base Fee") is equal to (i) 0.4167% (1.67% on an annual basis) of the lesser of (a) the average quarterly value of common equity capital or (b) the average quarterly value of all invested assets and (ii) 0.21875% (0.875% on an annual basis) of the difference between the average quarterly value of all invested assets and the average quarterly value of common equity capital. For purposes of calculating the Base Fee, the average quarterly value of common equity capital is not increased by the proceeds received from any public offering of common shares by the Company (other than pursuant to the Company's dividend reinvestment plan or any employee/trust manager benefit plan) during the 180 day period subsequent to such offering.

PMC COMMERCIAL TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. NOTES PAYABLE

During 1996, the Partnership, a special purpose affiliate of PMC Commercial, completed a private placement (the "Private Placement") of \$29.5 million of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Notes (i) have a present balance outstanding of \$12.9 million, (ii) mature in 2016, (iii) bear interest at the rate of 6.72% per annum and (iv) are collateralized by loans contributed by PMC Commercial to the Partnership, which loans have an aggregate of approximately \$23.0 million of principal outstanding at March 31, 1998.

## NOTE 6. NET INCOME PER SHARE:

The weighted average number of common shares of beneficial interest outstanding were 6,454,344 and 6,127,042 for the three months ended March 31, 1998 and 1997, respectively. For purposes of calculating diluted earnings per share, the weighted average shares outstanding were increased by 8,011 and 6,976 for the effect of stock options during the three months ended March 31, 1998 and 1997, respectively.

## NOTE 7. RECENT ACCOUNTING PRONOUNCEMENTS

## Reporting Comprehensive Income

In June 1997, The Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components. As the Company does not have any components of comprehensive income not currently included in the consolidated statements of income, SFAS No. 130 has no impact on the Company.

Disclosures about Segments of an Enterprise and Related Information In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the way that public companies report information about segments in annual and interim financial statements. Presently, the Company only operates in one segment of business. The requirements of SFAS No. 131 are not required in interim financial statements in the initial year of adoption.



PART I  
FINANCIAL INFORMATION

ITEM 2 .  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

OVERVIEW

The Company was organized in June 1993 and had no operations prior to completion of its initial public offering (the "IPO") on December 28, 1993. During the three months ended March 31, 1998 and the years ended December 31, 1997, 1996 and 1995, the Company originated and funded \$9.4 million, \$43.1 million, \$40.4 million and \$31.7 million of loans. A substantial portion of such loan originations were to corporations and individuals in the lodging industry.

As of March 31, 1998 and December 31, 1997, the total portfolio outstanding was \$115.1 million and \$110.8 million, respectively, (\$113.2 million and \$109.1 million, respectively, after reductions for loans purchased at a discount and deferred commitment fees) with a weighted average contractual interest rate of approximately 10.8%. 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. The annualized average yields on loans, including all loan fees earned, for the three months ended March 31, 1998 and the years ended December 31, 1997, 1996 and 1995 were approximately 12.5%, 12.4%, 12.1% and 12.1%, respectively. Generally, these loans are collateralized by first liens on real estate and guaranteed by the principals of the businesses financed. Included in principal outstanding at March 31, 1998 are \$2.5 million of interim financing which have been advanced pursuant to the SBA's section 504 lending program. Interest rates charged on such advances are comparable to those which are customarily charged by the Company.

As of March 31, 1998, the Company had two loans which were greater than 30 days delinquent. The aggregate principal balance outstanding of the delinquent loans was approximately \$1.8 million (1.6% of the total outstanding principal balance of the loan portfolio). One of the two loans (with a principal balance outstanding at March 31, 1998 of approximately \$1.0 million) has subsequently been brought current and continues to be current as of the date of the filing of this Form 10-Q. The second loan continues to be significantly delinquent. As of March 31, 1998, the Company has established a reserve in the amount of \$70,000 against such loan. In management's opinion, the realized value upon liquidation of the collateral relating to this loan will equal or exceed the principal balance outstanding on the loan less the related reserve.

PREPAYMENT CONSIDERATIONS

The terms of the loans originated by the Company provide that, subject to certain exceptions and other qualifications, voluntary prepayments of principal of the loans (each, a "Principal Prepayment") are permitted but are required to be accompanied by a specified charge (a "Prepayment Charge") or by a yield maintenance premium (a "Yield Maintenance Premium"), during all of their respective terms to maturity. The Prepayment Charge at the time of determination, will be equal to the product of the amount of the related Principal Prepayment and the percentage Prepayment Charge applicable to Principal Prepayments on such Loan at such time of determination.

Prepayment Charges vary by loan and generally are based on either (a) 2% to 5% of the amount of principal being prepaid or (b) 90 days of interest at the stated interest rate applied to the amount of principal being prepaid. Some of the Loans with Prepayment Charges are permitted to prepay principal up to 10% per year of the original loan balance without penalty.

As a result of the general downward trend in interest rates, the Company has experienced an increased rate in the prepayment of its loans. During the three months ended March 31, 1998 and the year ended December 31, 1997, the Company received \$3.1 million and \$18.3 million in principal prepayments as compared to \$400,000 and \$2.2 million during the three months ended March 31, 1997 and the year ended December 31, 1996, respectively. As a result of such prepayments, the Company received the immediate benefit of the Prepayment Charge; however, the proceeds from the prepayments were invested initially in temporary investments and have been reloaned or committed to be



relabeled at lower rates than the prepaid loans. The impact of the lower lending rates is partially offset (based on current market conditions) by the reduced cost of the Company's borrowings. See "Interest Rate and Prepayment Risk".

#### INTEREST RATE AND PREPAYMENT RISK

The ability of the Company to achieve certain of its investment objectives will depend in part on its ability to continue to borrow funds or issue preferred shares of beneficial interest on favorable terms, and there can be no assurance that such borrowings or issuances can in fact be achieved. The Company's net income is materially dependent upon the "spread" between the rate at which it borrows funds (typically either short-term at variable rates or long-term at fixed rates) and the rate at which it loans these funds (typically long-term at fixed rates). During periods of changing interest rates, interest rate mismatches could negatively impact the Company's net income and dividend yield and, as a result, the market price of the Company's common shares of beneficial interest. As interest rates have declined, the Company has experienced significant prepayments. As a result of the declining interest rate environment such prepayments, as well as scheduled repayments, have been relabeled at lower rates, which has an adverse effect on the Company's results of operations and may have an impact on its ability to maintain distributions at historic levels. The loans originated by the Company have prepayment fees charged ("make whole provisions") which the Company believes helps mitigate the likelihood and effect of Principal Prepayments. See "Prepayment Considerations".

#### 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 that significant doubt exists as to the ultimate realization of the loan. To date, a \$70,000 loan loss reserve has been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgement and consideration of 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 a 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

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1997

The net income of the Company during the three months ended March 31, 1998 and 1997, was \$2,655,000 and \$2,324,000, or \$0.41 and \$0.38 per share, respectively. The weighted average shares outstanding increased by approximately 5% from 6,127,042 for the three months ended March 31, 1997 to 6,454,344 for the three months ended March 31, 1998 as a result of shares issued pursuant to the dividend reinvestment and cash purchase plan.

Interest income - loans increased by \$306,000 (11%), from \$2,777,000 during the three months ended March 31, 1997, to \$3,083,000 during the three months ended March 31, 1998. This increase was primarily attributable to the reallocation of the Company's initial investment of the proceeds from the Private Placement in March 1996 and the Offering in July 1996 from cash and government securities to higher-yielding loans to small businesses. The average invested assets in loans to small businesses increased by \$14.0 million (14%), from \$98.0 million during the three months ended March 31, 1997, to \$112.0 million during the three months ended March 31, 1998. The annualized average yields on loans, including all loan fees earned, for the three months ended March 31, 1998 and 1997 were approximately 12.5% and 11.5%, respectively. Interest income - loans includes interest earned on loans, the accretion of discounts on purchased loans and the accretion of deferred commitment fees.

Interest and dividends - other investments decreased by \$222,000 (77%)

from \$287,000 during the three months ended March 31, 1997, to \$65,000 during the three months ended March 31, 1998. This decrease was due to

the utilization of the funds which were available for short-term investments (during the three months ended March 31, 1997) resulting from the Private Placement in March 1996 and the Offering in July 1996, to originate loans. As of December 31, 1997 the Company had fully utilized its working capital and was borrowing under the Revolver to provide working capital. Accordingly, short-term investments during the three months ended March 31, 1998 were significantly reduced. The average short-term investments of the Company decreased by \$18.9 million, from \$22.0 million during the three months ended March 31, 1997, to \$3.1 million during the three months ended March 31, 1998. The average yields on short-term investments during the three months ended March 31, 1998 and 1997 were approximately 4.9% and 5.2%, respectively.

Other income increased by \$256,000 (256%), from \$100,000 during the three months ended March 31, 1997, to \$356,000 during the three months ended March 31, 1998. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment fees, (iii) late and other loan fees and (iv) miscellaneous collections. The increase was principally attributable to the collection of prepayment fees during the three months ended March 31, 1998 of \$252,000 compared to \$17,000 during the three months ended March 31, 1997. Additionally; (i) income recognized from other loan-related fees, such as assumption, modification and extension fees, increased by \$55,000 from \$23,000 during the three months ended March 31, 1997, to \$78,000 during the three months ended March 31, 1998, and (ii) income recognized from the monitoring of hospitality construction projects in process decreased by \$35,000 from \$61,000 during the three months ended March 31, 1997, to \$26,000 during the three months ended March 31, 1998.

Expenses, other than interest expense, consisted primarily of the servicing and advisory fees paid to the Investment Manager. The operating expenses borne by the Investment Manager include compensation to PMC Commercial'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 direct transaction costs incident to the acquisition and disposition of investments, regular legal and auditing fees and expenses, the fees and expenses of PMC Commercial'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, is also required to pay expenses associated with any litigation and other extraordinary or nonrecurring expenses. Pursuant to the amended Investment Management Agreement, the Company incurred an aggregate of \$422,000 in management fees for the three months ended March 31, 1998. Of the total management fees paid or payable to the Investment Manager during the three months ended March 31, 1998, \$41,000 has been offset against commitment fees as a direct cost of originating loans. Investment management fees were \$386,000 for the three months ended March 31, 1997. Of the total management fees paid or payable to the Investment Manager during the three months ended March 31, 1997, \$55,000 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees of \$36,000 (prior to offsetting direct costs related to the origination of loans), or 9%, is primarily due to the average quarterly value of all invested assets (as defined by the amended Investment Management Agreement) increasing from \$98.1 million during the three months ended March 31, 1997, to \$112.9 million during the three months ended March 31, 1998 a \$14.8 million, or 15%, increase), and the average quarterly value of common equity capital (as defined by the amended Investment Management Agreement) increasing from \$86.7 million during the three months ended March 31, 1997, to \$92.8 million during the three months ended March 31, 1998 (a \$6.1 million, or 7%, increase).

Legal and accounting fees increased by \$7,000 (50%), from \$14,000 during the three months ended March 31, 1997, to \$21,000 during the three months ended March 31, 1998. This increase is attributable to an increase in corporate activity when comparing the three months ended March 31, 1998 to the three months ended March 31, 1997.

General and administrative expenses increased by \$1,000 (3%), from \$31,000 during the three months ended March 31, 1997, to \$32,000 during the three months ended March 31, 1998. The general and administrative expenses remained at low levels and stable since the majority of the expenses are encompassed by the Investment Management Agreement.

Interest expense during the three months ended March 31, 1998 relates primarily to interest incurred on the

Private Placement completed in March 1996 (approximately \$334,000), interest on the revolving credit facility (approximately \$62,000) and interest incurred on borrower advances (approximately \$9,000). During the three months ended March 31, 1997, interest expense relates primarily to interest incurred on the Private Placement (approximately \$445,000) and interest incurred on borrower advances (approximately \$25,000).

As the Company is currently qualified as a real estate investment trust under the applicable provisions of the Internal Revenue Code of 1986, as amended, there are no provisions in the financial statements for Federal income taxes.

#### CASH FLOW ANALYSIS

The Company generated \$3,265,000 and \$1,658,000 from operating activities during the three months ended March 31, 1998 and 1997, respectively. The increase of \$1,607,000 (97%) was primarily due to fluctuations in borrower advances which increased by \$667,000 from a use of \$587,000 during the three months ended March 31, 1997, to a source of \$80,000 during the three months ended March 31, 1998, an increase in net income from \$2,324,000 during the three months ended March 31, 1997 to \$2,655,000 during the three months ended March 31, 1998, and the change related to "due to affiliates" which increased by \$685,000 from a use of \$255,000 during the three months ended March 31, 1997, to a source of \$430,000 during the three months ended March 31, 1998.

The Company used \$33,000 and \$12,849,000 through investing activities during the three months ended March 31, 1998 and 1997, respectively. The decreased use of funds of \$12,816,000 was due to; (i) a decrease of \$4,518,000 in loans funded during the three months ended March 31, 1998 compared to the three months ended March 31, 1997, (ii) an increase in principal collected on loans of \$3,601,000 (primarily due to loan prepayments) during the three months ended March 31, 1998 compared to the three months ended March 31, 1997 and (iii) an increase in the source of funds provided by restricted investments at December 31, 1997 used in January 1998 to reduce the note payable related to the structured financing.

The Company used \$2,519,000 and \$1,378,000 from financing activities during the three months ended March 31, 1998 and 1997, respectively. During the three months ended March 31, 1998 and 1997, the main source of funds was \$2,072,000 and \$1,250,000, respectively, in proceeds received from issuance of common stock pursuant to the dividend reinvestment and cash purchase plan. The Company's main use of funds from financing activities are the payment of dividends as part of its requirements to maintain REIT status and the payment of principal on notes payable. Dividends paid increased \$236,000 from \$2,388,000 during the three months ended March 31, 1997, to \$2,624,000 during the three months ended March 31, 1998. This increase corresponds to the Company's increase in net income. Payment of principal on notes payable increased \$1,727,000 from \$240,000 during the three months ended March 31, 1997, to \$1,967,000 during the three months ended March 31, 1998 as a result of increased principal prepayments on the loans receivable collateralizing the notes payable.

#### 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 March 31, 1998, the Company had \$749,000 of cash and cash equivalents and approximately \$33.6 million of total loan commitments outstanding to 37 small business concerns predominantly in the lodging industry. The weighted average interest rate on these loan commitments at March 31, 1998 was 10.0%. Of those commitments, approximately \$7.5 million related to 18 partially funded construction loans. Approximately \$2.9 million of funding commitments remained on six SBA 504 Program loans. These commitments are made in the ordinary course of business and, in management's opinion, are generally on the same terms as those to existing borrowers. 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"). The Company has a dividend reinvestment and cash purchase plan ("DRP") available to its shareholders (see Note 9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). During March, 1998 the Company temporarily suspended the optional cash purchase portion of the DRP since the use of leverage is currently more cost effective than the issuance of additional equity. Revisions to amend the calculation of the purchase price of the shares issued related to open market purchases under the plan are being reviewed.

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 with respect to which the Company will receive no fees. 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 (the "Revolver") 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. In addition, pursuant to an amendment to the Company's Revolver, the bank has extended an additional \$12.5 million through an uncommitted credit facility (the "Guidance Line") available at the discretion of the bank. At March 31, 1998, the Company had \$3.8 million outstanding borrowings under the credit facility and \$16.2 million available thereunder (\$28.7 million available including amounts under the Guidance Line). 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 175 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, proceeds from an additional structured sale or securitization of loans and proceeds from loan prepayments will be adequate to meet its existing obligations. The Company has commenced a structured financing similar to the Private Placement completed in 1996, proceeds are anticipated to be between \$45 million to \$60 million. It is anticipated that this transaction will be completed during the second or third quarter of 1998. There can be no assurance the Company will be able to complete the contemplated structured financing or raise funds through the other identified financing sources. If these sources are not available, the Company will be required to fully utilize its \$20 million revolving credit facility and \$12.5 million Guidance Line, increase its revolving credit facility and/or may have to slow the rate of increasing the outstanding loan portfolio.

During 1996 the Company completed the Private Placement of approximately \$29.5 million of notes, issued pursuant to a rated structured financing, which are collateralized by the Partnership's commercial loan portfolio. The Private Placement 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. Net income on these leveraged funds is materially dependent on the spread between the rate at which it borrowed these funds (6.72%) and the rate obtained on loan of these funds (presently the Partnership's outstanding portfolio has a weighted average coupon of approximately 11.3%). In July 1996, the Company completed the sale of 2,335,000 Common Shares pursuant to the Offering. The Offering resulted in net proceeds to the Company of \$34.5 million, of which approximately \$547,000 were used to pay costs in connection with the Offering. At December 31, 1997, the Company had utilized all proceeds from the Private Placement and the Offering.

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. See "Prepayment Consideration" and "Interest Rate and Prepayment Risks".





## RECENT ACCOUNTING PRONOUNCEMENTS

## Reporting Comprehensive Income

In June 1997, The Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components. As the Company does not have any components of comprehensive income not currently included in the consolidated statements of income, SFAS No. 130 has no impact on the Company.

## Disclosures about Segments of an Enterprise and Related Information

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the way that public companies report information about segments in annual and interim financial statements. Presently, the Company only operates in one segment of business. The requirements of SFAS No. 131 are not required in interim financial statements in the initial year of adoption.

## RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS INCLUDED ON THIS FORM 10-Q

This Form 10-Q 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 and, in most instances, are identified through the use of words such as "anticipates," "expects" and "should." 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 this Form 10-Q 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.

## ITEM 3.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

PART II  
OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits

- 10.1 Third Amended and Restated Revolving Credit Note dated as of March 15, 1998.
- 10.2 Third Amendment to Loan Agreement and Amendment to Loan Documents and Renewal and Extension of Loan Dated as of March 15, 1998.
- 27.1 Financial Data Schedule

B. Forms 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 1998.

## SIGNATURES

Pursuant to the requirements 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.

|       |          |                                |
|-------|----------|--------------------------------|
| Date: | 05/14/98 | PMC Commercial Trust           |
|       | -----    | \s\ Lance B. Rosemore          |
|       |          | -----                          |
|       |          | Lance B. Rosemore              |
|       |          | President                      |
| Date: | 05/14/98 | \s\ Barry N. Berlin            |
|       | -----    | -----                          |
|       |          | Barry N. Berlin                |
|       |          | Chief Financial Officer        |
|       |          | (Principal Accounting Officer) |

## INDEX TO EXHIBITS

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION<br>-----   |
|----------------------------|--|
| 10.1                       | Third Amended and Restated Revolving Credit Note dated as of March 15, 1998.   |
| 10.2                       | Third Amendment to Loan Agreement and Amendment to Loan Documents and<br>Renewal and Extension of Loan Dated as of March 15, 1998. |
| 27.1                       | Financial Data Schedule  |

THIRD AMENDED AND RESTATED  
REVOLVING CREDIT NOTE

\$20,000,000.00

March 15, 1998

FOR VALUE RECEIVED, PMC COMMERCIAL TRUST ("BORROWER"), does hereby unconditionally promise to pay to the order of BANK ONE, TEXAS, NATIONAL ASSOCIATION ("BANK"), at its offices in Dallas County, Texas at 1717 Main Street, Dallas, Texas 75201, Attention: Alan Miller. 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 (a) the Base Rate, less (b) 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 (a) one and three fourths percent (1.75%), plus, (b) the quotient of (i) the LIBOR Rate with respect to such Interest Period, divided by (ii) 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.

"ADVANCE" shall have the meaning ascribed to such term in the Loan Agreement.

"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 (a) 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 to 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 (b) 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.

"DEFAULT" shall have the meaning ascribed to such term in the Loan Agreement.

"DEFAULT RATE" shall have the meaning ascribed to such term in the Loan Agreement.

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

"EVENT OF DEFAULT" shall have the meaning ascribed to such term in the Loan Agreement.

"EXCESS INTEREST AMOUNT" shall mean, on any date, the amount by which (a) 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 (b) the aggregate amount of interest accrued on this Note on or prior to such date.

"INTEREST NOTICE" shall mean a notice given by Borrower to Bank of an Interest Option 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 (a) in the case of the Base Rate Balance, the first day of each October, January, April and July occurring prior to the Maturity Date and (b) in the case of any LIBOR Balance, the last day of the corresponding Interest Period with respect to such LIBOR Balance and the Maturity Date.

"INTEREST PERIOD" shall mean with respect to any LIBOR Balance, a period commencing: (a) 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 (b) 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: (i) 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 (ii) 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 offered rate for U.S. Dollar deposits of not less than \$1,000,000.00 as of 11:00 a.m., City of London, England time two (2) LIBOR Business Days prior to the first date of each Interest Period of this Note as shown on the display designated as "BRITISH BANKERS ASSOCIATION INTEREST SETTLEMENT RATES" on the Telerate System ("TELERATE"), Page 3750 or Page 3740, or such other page or pages as may replace such pages on Telerate for the purpose of displaying such rate. Provided, however, that if such rate is not available on Telerate then such offered rate shall be otherwise independently determined by Bank from an alter nate, substantially similar independent source available to Bank or shall be calculated by Bank by a substantially similar methodology as that theretofore used to determine such offered rate in Telerate.

"LOAN AGREEMENT" shall mean that certain Revolving Credit Agreement dated as of May 12, 1995 by and between Bank and Borrower, as amended by that certain First Amendment to Revolving Credit Agreement dated as of October 18, 1995, that certain Second Amendment to Revolving Credit Agreement and Amendment to Loan Documents and Renewal and Extension of Loan dated to be effective as of May 12, 1996, and that certain Third Amendment to Revolving Credit Agreement and Amendment to Loan Documents and Renewal and Extension of Loan dated to be effective March 15, 1998, each of which was entered into by the Bank and the Borrower, as the foregoing



may, from time to time hereafter, be further renewed, extended, increased, restated, supplemented, amended or otherwise modified.

"LOAN DOCUMENTS" shall have the meaning ascribed to such term in the Loan Agreement.

"MATURITY DATE" shall have the meaning ascribed to such term in the Loan Agreement.

"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 Chapter 303 of the Texas Finance Code 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 pursuant to the "weekly ceiling," from time to time in effect, as specified in Chapter 303 and 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%) per annum.

"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. Mandatory

prepayments of the unpaid principal balance of this Note shall be due and payable on the fifteenth (15) day of each calendar month until this Note is fully and finally paid in an amount equal to the EXCESS DEBT (as such term is defined in the Loan Agreement) outstanding on the immediately preceding BORROWING BASE DETERMINATION DATE (as such term is defined in the Loan Agreement), as provided in SECTION 2.6(E) of the Loan Agreement. The entire unpaid principal balance of this Note, and all accrued but unpaid interest hereon, 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 (a) the Adjusted Base Rate in effect from day to day, or (b) 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 lessor 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 365/366 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. Subject to the limitations on interest, if applicable, set forth in this Note and the Loan Agreement, to the extent any interest is not paid on or before the fifth (5) 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, all past due principal of this Note and, to the extent permitted by applicable law, past due interest on this Note shall, at the option of Bank, bear interest at the Default 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 \$100,000.00 of unpaid principal or an integral multiple thereof. The Interest Option shall be exercised in the manner provided below:

a. 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.

b. 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.

c. 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, regulation, or any change therein, or any change in the interpretation or administration thereof by any GOVERNMENTAL AUTHORITY (as such term is defined in the Loan Agreement), 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 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 in such order of priority as Bank, in its sole discretion, may elect including, without limitation, 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 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 Commitment (as such term is defined in the Loan Agreement). 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 cancelled 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 earlier to occur of the Termination Date (as such term is defined in the Loan Agreement) or the Maturity Date. Each Advance hereunder shall be in an amount not less than \$100,000.00 or an integral multiple thereof. Requests for Advances shall be submitted to Bank in accordance with SECTION 2.5 of the Loan Agreement. In addition to the Notice of Borrowing (as such term is defined in the Loan Agreement) required by SECTION 2.5 of the Loan Agreement, each request for an Advance hereunder must be accompanied by an Interest Notice for the funds to be advanced hereunder; 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.

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 to all of the Liens, benefits, rights and privileges set forth in or otherwise arising under any and all Loan Documents. 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 terms or provisions thereof shall, however, affect or impair the absolute and unconditional obligation of the Borrower 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 for 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 any 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 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 Adjusted LIBOR Rates with respect to the LIBOR Balances or any portion thereof or to reduce the amount or 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 given 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 or 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 Loan Document 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 Default or Event of Default that is not cured within the time, if any, provided for in the Loan Documents, the holder hereof shall be entitled to exercise any or all rights and remedies available to the holder under the Loan Agreement and other Loan Documents and at law and in equity including, without limitation, at its option, (a) following the occurrence of an Event of Default, the right to declare the entire unpaid balance of principal and accrued but unpaid interest on this Note to be immediately due and payable, and (b) following the occurrence of a Default, the right to refuse to advance additional amounts under this Note.

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 actual period of existence thereof exceeds the Maximum Rate, if any, Bank or any holder hereof shall refund to Borrower (or to such other person who may be entitled thereto by law) 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 LOAN DOCUMENT, THE UNDERSIGNED IRREVOCABLY AGREES THAT VENUE FOR SUCH DISPUTE SHALL LIE IN ANY COURT OF COMPETENT JURISDICTION IN TARRANT COUNTY, TEXAS.

19. Amendment and Restatement. This Note renews and extends the principal and accrued unpaid interest as of the date hereof under that certain Revolving Credit Note dated May 12, 1995, executed by Borrower and payable to the order of Bank in the maximum principal amount of \$10,000,000, as increased, restated, amended and otherwise modified by that certain promissory note dated as of October 18, 1995 executed by the Borrower and payable to the order

of the Bank in the maximum principal amount of \$20,000,000.00 and further restated, amended and otherwise modified by that certain Second Amended and Restated Revolving Credit Note dated as of May 12, 1996 executed by Borrower and payable to the order of Bank in the maximum principal amount of \$20,000,000.00 (jointly, the "PRIOR NOTE"). 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. This Note amends and restates and is given in substitution and replacement for the Prior Note but not in extinguishment of or as a novation of the indebtedness evidenced by the Prior Note.

PMC COMMERCIAL TRUST

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT AND AMENDMENT  
TO LOAN DOCUMENTS AND RENEWAL  
AND EXTENSION OF LOAN

THIS THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT AND AMENDMENT TO LOAN DOCUMENTS AND RENEWAL AND EXTENSION OF LOAN (the "AMENDMENT") is made and entered into to be effective as of the 15th day of March, 1998, by and between PMC COMMERCIAL TRUST (herein referred to with its successors and assigns as the "BORROWER") and BANK ONE, TEXAS, N.A., a national banking association (herein referred to with its successors and assigns as the "LENDER").

RECITALS:

A. Borrower and Lender executed that certain Revolving Credit Agreement, dated as of May 12, 1995, as amended by that certain First Amendment to Revolving Credit Agreement dated as of October 18, 1995, and by that certain Second Amendment to Revolving Credit Agreement and Amendment to Loan Documents and Renewal and Extension of Loan dated as of May 12, 1996, (the "LOAN AGREEMENT"), pursuant to which the Lender has made and may hereafter make loans to the Borrower, as evidenced by that certain Revolving Credit Note executed by Borrower and dated as of May 12, 1995, payable to the order of Lender in the maximum principal amount of \$10,000,000.00, as increased, restated and otherwise amended by that certain promissory note executed by the Borrower and dated as of October 18, 1995, payable to the order of Lender in the maximum principal amount of \$20,000,000.00 (the "EXISTING REVOLVING CREDIT NOTE"). Except as otherwise expressly provided herein, all capitalized terms used herein shall have the same meanings assigned to such terms in the Loan Agreement.

B. The Borrower and Lender have agreed, subject to the terms and conditions outlined herein and subject to the Borrower's agreement with the terms and provisions hereof and of each and every other instrument and agreement executed in connection herewith, to restructure the credit facilities made available pursuant to the Loan Agreement and Existing Revolving Credit Note.

AGREEMENTS

In consideration of the premises, which are made a part hereof, and the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby amend the Loan Agreement and Loan Documents as follows:

## SECTION I

## AMENDMENTS TO THE LOAN AGREEMENT

The Loan Agreement is hereby amended in the following respects:

1.1 AMENDMENT TO SECTION 1.1.

(a) SECTION 1.1 of the Loan Agreement shall be and is hereby amended to delete the definition of "BUSINESS DAY" contained therein and to substitute the following definition in lieu thereof:

" 'BUSINESS DAY' shall have the meaning ascribed to such term in that certain Third Amended and Restated Revolving Credit Note dated as of March 15, 1998, executed by the Borrower, payable to the order of the Bank in the maximum principal amount of \$20,000,000.00.

(b) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete sub-part (a) from the definition of "Combined Borrowing Base Availability" and to substitute the following in lieu thereof:

"...(a) The Combined Borrowing Base Availability shall never exceed the lesser of (i) \$32,500,000.00, or (ii) the sum of \$20,000,000.00 plus the face amount of each Guidance Line Note executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement which has not matured (whether by acceleration, the lapse of time or otherwise)..."

(c) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to add the following as additional definitions thereto:

" 'GUIDANCE LINE OF CREDIT' means an uncommitted credit facility that may, from time to time, in the sole and absolute discretion of the Bank, be made available to the Borrower pursuant to SECTION 2.9 of this Agreement in an aggregate amount at any time outstanding up to, but not to exceed, the lesser of (i) \$12,500,000.00, or (ii) the sum of the maximum face amounts of all Guidance Line Notes executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement which have not matured (whether by acceleration, the lapse of time or otherwise)."

" 'GUIDANCE LINE NOTES' shall mean such promissory notes as may, from time to time, be executed and delivered by the Borrower in substantially the same form as EXHIBIT J, appropriately completed and accepted by the Bank pursuant to SECTION 2.9 of this Agreement, as the same may, from time to time, be renewed, increased, extended, restated, amended or otherwise modified."

(d) SECTION 1.1 of the Loan Agreement shall be and is hereby amended to delete the references to May 12, 1998 contained in the definitions of "MATURITY DATE" and "TERMINATION DATE" and to substitute May 15, 2000 in lieu thereof; provided, however, the term "MATURITY DATE", as applicable to any Guidance Line Note or any Advances or Loans made or to be made thereunder, shall mean the sooner to occur of the Maturity Date or Termination Date, as applicable, set forth above, or the date specified as being the date on which the principal balance then outstanding thereon and all accrued and unpaid interest shall become due and payable in full (whether by acceleration, the lapse of time or otherwise), and the term "TERMINATION DATE", as applicable to such Guidance Line Note, shall be the same date as its Maturity Date.

(e) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete the definition of "MAXIMUM BORROWING BASE AVAILABILITY" contained therein and to substitute the following definition in lieu thereof:

" 'MAXIMUM BORROWING BASE AVAILABILITY' shall mean the lesser of (a) the sum of \$20,000,000.00 plus the face amounts of all Guidance Line Notes executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement which have not matured (whether by acceleration, the lapse of time or otherwise), or (b) the Combined Borrowing Base Availability."

(f) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete the definition of "MAXIMUM RATE" contained therein and to substitute the following definition in lieu thereof:

" 'MAXIMUM RATE' shall have the meaning ascribed to such term in that certain Third Amended and Restated Revolving Credit Note dated as of March 15, 1998, executed by the Borrower, payable to the order the Bank in the maximum principal amount of \$20,000,000.00."

(g) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete the definition of the term "NOTE" contained therein and to substitute the following definition in lieu thereof:

" 'NOTE' collectively means and refers to (i) the Revolving Credit Note and (ii) each Guidance Line Note executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement, evidencing the obligation of Borrower to repay the Loan, as any of the same may, from time to time, be renewed, increased, extended, restated, amended or otherwise modified."

(h) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to add the following as an additional definition thereto:

" 'REVOLVING CREDIT NOTE' means and refers to that certain Third Amended and Restated Revolving Credit Note dated as of March 15, 1998, executed by the Borrower, payable to the order of Bank in the maximum principal amount of \$20,000,000.00, as the same may, from time to time, be renewed, increased, extended, restated, amended or otherwise modified."

(i) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete from the definition of "ELIGIBLE MORTGAGE LOAN", SUBSECTION (D) thereof and substitute the following in lieu thereof:

"...(d) which does not constitute a Non-Performing Loan, a Renegotiated Loan, a Construction Loan or a Segmented Loan."

(j) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended to delete from the definition of "MORTGAGE LOAN DOCUMENTS" SUBSECTION (B) thereof, and substitute the following in lieu thereof:

"...(b) an originally executed copy of the Mortgage which secures the Mortgage Note, file marked to evidence its filing in the appropriate county real estate records....."

(k) SECTION 1.1 of the Loan Agreement shall be and is hereby further amended by the addition of the following definitions:

" 'RENEGOTIATED LOAN' shall mean those Mortgage Loans with respect to which the Mortgage Loan Obligors have had

insufficient cash flow and/or negative economic events which have diminished their ability to make timely and/or complete payments and Borrower has given its concurrence to an alternative schedule of repayment."

" 'CONSTRUCTION LOAN' shall mean those Mortgage Loans with respect to which the loan funds are used to finance the construction, renovation or improvement of Projects."

" 'SEGMENTED LOAN' shall mean those Mortgage Loans which have been segmented into parts for securitization purposes."

1.2 AMENDMENT TO SECTION 2.1. SECTION 2.1(A)(I) of the Loan Agreement shall be and is hereby amended to delete the same in its entirety and to substitute the following in lieu thereof:

"...(i) the sum of \$20,000,000.00 plus the aggregate face amounts of all Guidance Line Notes executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement which have not matured (whether by acceleration, the lapse of time or otherwise); or..."

1.3 AMENDMENT TO SECTION 2.4. SECTION 2.4 of the Loan Agreement shall be and is hereby amended by adding the following language to the end of thereof:

"(e) Cleanup. Borrower agrees that for a period of not less than thirty (30) consecutive days during each calendar year, Borrower shall have repaid the entire outstanding principal balance of the Note and other Obligations, together with all accrued but unpaid interest thereon."

1.4 AMENDMENT TO SECTION 2.7. SECTION 2.7 of the Loan Agreement shall be and is hereby amended to delete the same in its entirety and to substitute the following in lieu thereof:

"SECTION 2.7 Fees. Subject to the limitations set forth in SECTION 9.12, Borrower shall pay to Bank in arrears an unused facility fee (the "UNUSED FACILITY FEE"). The Unused Facility Fee shall be due and payable quarterly on the fifteenth (15th) day of each June, September, January and March of each calendar year which occurs prior to the Termination Date, with a final payment being due and payable on the Termination Date. The Unused Facility Fee due on each Unused Facility Fee payment date (including, without limitation, the Termination Date) shall be equal to twenty-five percent (25%) of the product obtained by multiplying .00125 times the amount by which \$20,000,000.00 plus the aggregate

face amounts of all Guidance Line Notes executed and delivered by the Borrower and accepted by the Bank pursuant to SECTION 2.9 of this Agreement which have not matured (whether by acceleration, the lapse of time or otherwise) exceeds the average daily principal balance outstanding on the Revolving Credit Note and the Guidance Line Notes during the three (3) month period which ends on the applicable Unused Facility Fee payment date. If the Termination Date occurs pursuant to SECTION 2.1(B) or 8.2 hereof, the Unused Facility Fee shall be determined prorata, based upon the portion of the three (3) month period occurring prior to the Termination Date, prorated in accordance with the actual number of days elapsing during such period (including the first day of such period but excluding the last day). In the event that interest accrued and paid on the Revolving Credit Note and any Guidance Line Notes during the consecutive twelve (12) month period which follows March 15, 1998 (or during any consecutive twelve (12) month period which follows any anniversary date of March 15, 1998) exceeds \$250,000.00, provided that no Default [other than a Default described in SECTION 8.1(C)] or Event of Default is then existing, then the Bank shall within thirty (30) days following written request by Borrower, refund to Borrower the full amount of unused facility fees paid by Borrower with respect to such twelve (12) month period."

1.5 AMENDMENT TO ARTICLE 2. ARTICLE 2 of the Loan Agreement shall be and is hereby amended to add, as an addition thereto, a new SECTION 2.9 which shall read in its entirety as follows:

"SECTION 2.9 GUIDANCE LINE OF CREDIT. The Borrower may, from time to time, give the Bank at least fifteen (15) business days prior written notice of the Borrower's desire to increase the maximum amount of the Commitment by executing and delivering to the Bank a Guidance Line Note. Such notice shall be signed by an authorized officer of the Borrower, shall specify the proposed effective date for the Guidance Line Note, the maximum principal amount thereof, and the Maturity Date and Termination Date to be applicable thereto (which shall not extend beyond the Maturity Date and Termination Date of the Revolving Credit Note). No Guidance Line Note shall, however, be in a maximum amount less than \$2,500,000.00 or shall provide for a Maturity Date less than thirty (30) days following the date on which the Bank shall make an Advance thereunder, and no Guidance Line Note shall be accepted by the Bank if a Default or Event of Default shall then exist. Any Loan made pursuant to a Guidance Line Note shall be made in a single Advance in the full face amount of such Note. THE BANK MAY DECLINE TO INCREASE THE AMOUNT OF THE COMMITMENT BY ACCEPTING ANY GUIDANCE LINE NOTE FOR ANY REASON OR FOR NO REASON, IN ITS SOLE AND ABSOLUTE DISCRETION. THE BORROWER ACKNOWLEDGES AND

AGREES THAT THE BANK IS UNDER NO OBLIGATION TO MAKE ANY LOAN OR ADVANCE PURSUANT TO THE GUIDANCE LINE OF CREDIT UNLESS AND UNTIL THE BANK SHALL, IN ITS SOLE AND ABSOLUTE DISCRETION, ACCEPT A GUIDANCE LINE NOTE, AND IN SUCH EVENT, THE BANK'S OBLIGATION TO MAKE LOANS AND ADVANCES PURSUANT TO THE GUIDANCE LINE OF CREDIT SHALL BE LIMITED TO THE MAXIMUM AMOUNTS OF EACH GUIDANCE LINE NOTE EXECUTED AND DELIVERED BY THE BORROWER AND ACCEPTED BY THE BANK PURSUANT TO THIS SECTION WHICH HAS NOT MATURED (WHETHER BY ACCELERATION, THE LAPSE OF TIME OR OTHERWISE). If the Bank is willing to increase the amount of the Commitment by accepting a Guidance Line Note on the terms specified in the notice given by the Borrower to the Bank, the Bank shall notify the Borrower, whereupon the Borrower shall execute and deliver to the Bank a Guidance Line Note in the form of EXHIBIT "J" attached hereto appropriately completed to specify the maximum amount, the Maturity Date and Termination Date for such Note together with such other instruments, agreements, certificates, documents and information as the Bank may request including, but not limited to, a Compliance Certificate completed in all appropriate respects and executed by the president or any executive vice president or the chief executive or chief financial officer of the Borrower. Loans and Advances made pursuant to any Guidance Line Note shall be subject to all terms and conditions of this Agreement and each other Loan Document including, without limitation, those set forth in this ARTICLE 2 and in ARTICLE 4. Upon the execution and delivery of each Guidance Line Note, the Borrower shall be deemed to represent and warrant that all representations and warranties of Borrower set forth in the Loan Documents and in the Compliance Certificate are true, complete and correct in all material respects and that nothing is omitted therefrom which would cause the same to be misleading in any material respect. Without limiting the generality of the forgoing, the Borrower shall be deemed to represent and warrant to the Bank that it has neither received notice of nor is aware of any Default or Event of Default. Payments of principal and interest upon the Loans (including, without limitation, prepayments) may be applied by the Bank, at its sole option, first toward payment of the Obligations evidenced by the Guidance Line Notes, or any one or more of them, in such order of priority as the Bank, in its sole discretion, may elect."

1.6 AMENDMENT TO SECTION 7.3. SECTION 7.3 of the Loan Agreement shall be and is hereby amended to delete the same in its entirety and to substitute the following in lieu thereof:

SECTION 7.3 MINIMUM NET WORTH. Borrower shall not, at any time, permit its Net Worth to be less than the sum of

\$80,000,000.00 plus ninety percent (90%) of the total amount of any of the following contributed to the Borrower as consideration for or with respect to any shares of (or other ownership or beneficial interests in) the Borrower: (a) cash or other legal tender of the United States , and (b) the fair market value of any property, real or personal, tangible or intangible (including any legal or equitable interest in such property), contributed to the Borrower as consideration for or with respect to any shares of (or other ownership or beneficial interests in) the Borrower. In the event Borrower's required minimum Net Worth shall exceed \$80,000,000.00 pursuant to the foregoing sentence, and thereafter Borrower shall repurchase its own shares or other ownership or beneficial interests as treasury stock or otherwise, then Borrower's required minimum Net Worth shall be reduced by ninety percent (90%) of the lesser of (i) the purchase price or (ii) the fair market value of such shares or other ownership or beneficial interests purchased by Borrower, provided, however, that Borrower shall not at any time permit its Net Worth to be less than \$80,000,000.00.

1.7 NOTICES, CERTIFICATES AND EXHIBITS. The forms of Notice of Borrowing, Compliance Certificate and Borrowing Base Report shall be amended so that, in each instance where the amount of \$20,000,000.00 appears, the sum of (a) \$20,000,000.00 plus (b) the sum of the maximum face amounts of all Guidance Line Notes which have been executed and delivered by the Borrower and accepted by the Bank in accordance with SECTION 2.9 of the Loan Agreement and which have not matured (whether by acceleration, the lapse of time or otherwise) is substituted for \$20,000,000.00. The schedule of exhibits to the Loan Agreement shall be amended to add as a new EXHIBIT "J" thereto, the form of the Guidance Line Note which is attached to this Amendment as EXHIBIT "A" and made a part hereof for all purposes, and said form of the Guidance Line Note shall be, and hereby does become, a part of the Loan Agreement.

## SECTION II

### AMENDMENT TO THE REVOLVING CREDIT NOTE

2.1 Third Amended and Restated Revolving Credit Note. Contemporaneously with the execution hereof, Borrower shall execute and deliver to Bank a Third Amended and Restated Revolving Credit Note (herein so called) dated as of March 15, 1998, in the maximum principal amount of \$20,000,000.00 which shall, from and after March 15, 1998, constitute the "REVOLVING CREDIT NOTE" contemplated by the Loan Agreement and Loan Documents.



## SECTION III

## AMENDMENT TO LOAN DOCUMENTS

3.1 Reference to the Loan Agreement. Each of the Loan Documents is hereby amended so that any reference in any Loan Document to the Loan Agreement or to any other Loan Document shall mean a reference to the Loan Agreement or such other Loan Document as amended hereby, and any reference in the Loan Agreement or any other Loan Document to the Revolving Credit Note shall mean a reference to the Third Amended and Restated Revolving Credit Note executed contemporaneously herewith.

## SECTION IV

## MISCELLANEOUS

4.1 Authority. The Borrower hereby represents and warrants that the execution, delivery and performance of this Amendment, all instruments, agreements and other documents executed in connection herewith and all other instruments, agreements and documents executed in connection with the Loan Agreement have been duly authorized by all necessary action of the Borrower and do not and will not: (a) violate any provisions of any agreement, law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect to which Borrower is a party or to which it or any of its assets may be subject; (b) result in, or require the creation or imposition of any Lien (other than a Permitted Lien) upon or with respect to any asset now owned by Borrower or any Collateral; or (c) result in a breach of or constitute a default by Borrower (and Borrower is not in default) under any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its assets is bound or affected. Borrower further warrants and represents that no approval, authorization, order, license, permit, franchise or consent of or registration, declaration, qualification or filing with any governmental authority is required in connection with the execution, delivery or performance by Borrower of this Amendment or any other Loan Document. Such instruments and agreements constitute the legal, valid and binding obligations of the Borrower, enforceable against Borrower in accordance with their respective terms, subject only to the applicable debtor relief laws.

4.2 Ratification. Borrower hereby ratifies and confirms the Loan Agreement and Loan Documents, as renewed, extended, modified and otherwise amended hereby, in all respects, and acknowledges and agrees that all of the terms, provisions and covenants thereof, as renewed, extended, modified and otherwise amended hereby and by the Third Amended and Restated Revolving Credit Note, do and shall remain and continue in full force and effect, enforceable against the Borrower and its assets in accordance with their terms.

4.3 Further Assurances. The Borrower covenants and agrees from time to time to

promptly execute, assign, endorse, and deliver to Lender all documents, instruments, notices, agreements, assignments, pledges, statements, and writings, and to do all other acts and things as the Lender may reasonable request in order to more fully evidence and/or to carry out more fully the intent and purposes of this Amendment, the Loan Agreement and other Loan Documents.

4.4 Multiple Counterparts. Multiple counterparts of this Amendment 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.

4.5 Representations and Warranties. The Borrower hereby represents and warrants that all representations and warranties contained in the Loan Agreement and other Loan Documents are and continue to be true and correct in all material respects, as if made on the date hereof, and nothing is omitted therefrom that would cause the same to be misleading in any material respect.

4.6 Applicable Laws. THIS AMENDMENT SHALL BE CONSTRUED, INTERPRETED AND ENFORCEABLE UNDER AND PURSUANT TO THE LAWS OF THE STATE OF TEXAS AND APPLICABLE LAWS OF THE UNITED STATES.

4.7 No Oral Agreements. THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

IN WITNESS WHEREOF, the Borrower and the Lender have caused this Amendment to be executed effective as of the date specified above.

BORROWER:

PMC COMMERCIAL TRUST

By:

-----  
Printed Name:

-----  
Title:

LENDER:

BANK ONE TEXAS, N.A.

By:

-----  
Printed Name:

-----  
Title:

EXHIBIT "A"  
TO  
THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT  
AND AMENDMENT TO LOAN DOCUMENTS AND RENEWAL  
AND EXTENSION OF LOAN

EXHIBIT "J"  
TO  
REVOLVING CREDIT AGREEMENT

GUIDANCE LINE NOTE NO.

\$ \_\_\_\_\_ , \_\_\_\_\_

FOR VALUE RECEIVED, PMC COMMERCIAL TRUST ("BORROWER"), does hereby unconditionally promise to pay to the order of BANK ONE, TEXAS, NATIONAL ASSOCIATION ("BANK"), at its offices in Dallas County, Texas at 1717 Main Street, Dallas, Texas 75201, Attention: Alan Miller. The principal amount of

AND \_\_\_\_\_/100 DOLLARS (\$ \_\_\_\_\_) ("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 (a) the Base Rate, less (b) 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 (a) one and three fourths percent (1.75%), plus, (b) the quotient of (i) the LIBOR Rate with respect to such Interest Period, divided by (ii) 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.

"ADVANCE" shall have the meaning ascribed to such term in the Loan Agreement.

"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 (a) 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 to 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 (b) 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.

"DEFAULT" shall have the meaning ascribed to such term in the Loan Agreement.

"DEFAULT RATE" shall have the meaning ascribed to such term in the Loan Agreement.

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

"EVENT OF DEFAULT" shall have the meaning ascribed to such term in the Loan Agreement.

"EXCESS INTEREST AMOUNT" shall mean, on any date, the amount by which (a) 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 (b) the aggregate amount of interest accrued on this Note on or prior to such date.

"INTEREST NOTICE" shall mean a notice given by Borrower to Bank of an Interest Option 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 (a) in the case of the Base Rate Balance, the first day of each October, January, April and July occurring prior to the Maturity Date and (b) in the case of any LIBOR Balance, the last day of the corresponding Interest Period with respect to such LIBOR Balance and the Maturity Date.

"INTEREST PERIOD" shall mean with respect to any LIBOR Balance, a period commencing: (a) 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 (b) 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: (i) 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 (ii) 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 offered rate for U.S. Dollar deposits of not less than \$1,000,000.00 as of 11:00 a.m., City of London, England time two LIBOR Business Days prior to the first date of each Interest Period of this Note as shown on the display designated as "BRITISH BANKERS ASSOC. INTEREST SETTLEMENT RATES" on the Telerate System ("TELERATE"), Page 3750 or Page 3740, or such other page or pages as may replace such pages on Telerate for the purpose of displaying such rate. Provided, however, that if such rate is not available on Telerate then such offered rate shall be otherwise independently determined by Bank from an alternate, substantially similar independent source available to Bank or shall be calculated by Bank by a substantially similar methodology as that theretofore used to determine such offered rate in Telerate.

"LOAN AGREEMENT" shall mean that certain Revolving Credit Agreement dated as of May 12, 1995, by and between Bank and Borrower, as amended by that certain First Amendment to Revolving Credit Agreement dated as of October 18, 1995, that certain Second Amendment to Revolving Credit Agreement and Amendment to Loan Documents and Renewal and Extension

of Loan dated to be effective as of May 12, 1996, and that certain Third Amendment to Revolving Credit Agreement and Amendment to Loan Documents and Renewal and Extension of Loan dated to be effective March 15, 1998, each of which was entered into by the Bank and the Borrower, as the foregoing may, from time to time hereafter, be further renewed, extended, increased, restated, supplemented, amended or otherwise modified.

"LOAN DOCUMENTS" shall have the meaning ascribed to such term in the Loan Agreement.

"MATURITY DATE" shall mean the sooner to occur of (a) the Maturity Date (as such term is defined in the Loan Agreement), (b) May 15, 2000, or (c) the date on which this Note, both principal and interest, shall become due and payable whether the same results from termination of the Bank's Commitment (as such term is defined in the Loan Agreement), as contemplated by SECTION 2.1(B) or SECTION 8.2 of the Loan Agreement, acceleration of this Note or the other Obligations (as such term is defined in the Loan Agreement), or otherwise.

"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 Chapter 303 of the Texas Finance Code, 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 pursuant to the "weekly ceiling" from time to time in effect, as specified in Chapter 303, 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%) per annum.

"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 proratations, 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. The principal of this Note, together with all accrued but unpaid interest, shall be due and payable on the Maturity Date. Mandatory prepayments of the unpaid principal balance of this Note shall be due and payable on the fifteenth (15th) day of each calendar month until this Note is fully and finally paid in an amount equal to that portion of the Excess Debt (as such term is defined in the Loan Agreement) outstanding on the immediately preceding Borrowing Base Determination Date (as such term is defined in the Loan Agreement), as provided in SECTION 2.6(E) of the Loan Agreement which the Bank elects to apply toward payment of this Note. The entire unpaid principal balance of this Note, and all accrued but unpaid interest hereon, 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 (a) the Adjusted Base Rate in effect from day to day, or (b) 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 365/366 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. Subject to the limitations on interest, if applicable, set forth in this Note and the Loan Agreement, to the extent any interest is not paid on or before the fifth (5) 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, all past due principal of this Note and, to the extent permitted by applicable law, past due interest on this Note shall, at the option of Bank, bear interest at the Default 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 \$100,000.00 of unpaid principal or an integral multiple thereof. The Interest Option shall be exercised in the manner provided below:

a. 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.

b. 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.

c. 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, regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority (as such term is defined in the Loan Agreement), 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 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 in such order of priority as Bank, in its sole discretion, may elect including, without limitation, 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 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 Commitment (as such term is defined in the Loan Agreement). 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 cancelled 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 earlier to occur of the Termination Date (as such term is defined in the Loan Agreement) or the Maturity Date. Each Advance hereunder shall be in an amount not less than \$100,000.00 or an integral multiple thereof. Requests for Advances shall be submitted to Bank in accordance with SECTION 2.5 of the Loan Agreement. In addition to the Notice of Borrowing (as such term is defined in the Loan Agreement) required by SECTION 2.5 of the Loan Agreement, each request for an Advance hereunder must be accompanied by an Interest Notice for the funds to be advanced hereunder; 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.

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 to all of the Liens, benefits, rights and privileges set forth in or otherwise arising under any and all Loan Documents. 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, if applicable, 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 terms or provisions thereof shall, however, affect or impair the absolute and unconditional obligation of the Borrower 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 for 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 any 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 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

Adjusted LIBOR Rates with respect to the LIBOR Balances or any portion thereof or to reduce the amount or 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 given 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 or 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 Loan Document 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 Default or Event of Default that is not cured within the time, if any, provided for in the Loan Documents, the holder hereof shall be entitled to exercise any or all rights and remedies available to the holder under the Loan Agreement and other Loan Documents and at law and in equity including, without limitation, at its option, (a) following the occurrence of an Event of Default, the right to declare the entire unpaid balance of principal and accrued but unpaid interest on this Note to be immediately due and payable, and (b) following the occurrence of a Default, the right to refuse to advance additional amounts under this Note.

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 non-principal 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 actual period of existence thereof exceeds the Maximum Rate, if any, Bank or any holder hereof shall refund to Borrower (or to such other person who may be entitled thereto by law) 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 LOAN DOCUMENT, THE UNDERSIGNED IRREVOCABLY AGREES THAT VENUE FOR SUCH DISPUTE SHALL LIE IN ANY COURT OF COMPETENT JURISDICTION IN DALLAS COUNTY, TEXAS.

PMC COMMERCIAL TRUST

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MARCH 31, 1998 FORM 10-Q OF PMC COMMERCIAL TRUST AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| 3-MOS   | DEC-31-1998 | JAN-01-1998 | MAR-31-1998 |
|---------|-------------|-------------|-------------|
|         |             |             | 466         |
|         |             | 283         |             |
|         |             | 113,966     |             |
|         |             | (70)        |             |
|         |             | 0           |             |
|         |             | 0           | 0           |
|         |             | 0           |             |
|         |             | 116,401     |             |
| 6,383   |             |             | 16,754      |
| 0       |             |             | 0           |
|         |             |             | 93,948      |
|         |             | (684)       |             |
| 116,401 |             |             | 0           |
|         |             |             | 0           |
|         |             | 3,504       |             |
|         |             | 0           |             |
|         |             | 444         |             |
|         |             | 0           |             |
|         |             | 405         |             |
|         |             | 2,655       |             |
|         |             | 0           |             |
|         |             | 2,655       |             |
|         |             | 0           |             |
|         |             | 0           |             |
|         |             |             | 0           |
|         |             |             | 2,655       |
|         |             |             | 0.41        |
|         |             |             | 0.41        |

Includes current and long-term portion of all loans receivable - before reserve and related interest receivable.

Includes the following items not included above:

|                               |       |
|-------------------------------|-------|
| (i) Other assets, net         | \$ 43 |
| (ii) Deferred borrowing costs | 206   |
| (iii) Restricted investments  | 1,507 |

-----  
\$1,756  
=====

Includes the following items not included above:

|   |         |
|---|---------|
| (i) Dividends payable                       | \$2,830 |
| (ii) Other liabilities                      | 220     |
| (iii) Interest payable                      | 154     |
| (iv) Borrower advances                      | 1,511   |
| (v) Unearned commitment fees                | 838     |
| (vi) Due to affiliates                      | 774     |
| (vii) Unearned construction monitoring fees | 56      |

-----  
\$6,383  
-----