FORM 10 - Q

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 September 30, 1996

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) 380-0044
(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 November 1, 1996, Registrant had outstanding 6,021,772 Common Shares of Beneficial Interest, par value $.01 per share.

PMC COMMERCIAL TRUST

INDEX

PART I

Financial Information

ITEM 1.

Financial Statements

PMC COMMERCIAL TRUST
CONSOLIDATED BALANCE SHEETS

	September 30, 1996	December 31, 1995
ASSETS	(Unaudited)	
Investments:		
Loans receivable, net	$ 80,155,358	$ 59,129,536
Cash equivalents	36,133,586	173,679
Restricted investments	2,502,968	--
Total investments	118,791,912	59,303,215
Other assets:		
Cash	11,803	33,504
Interest receivable	484,245	410,073
Deferred borrowing costs	397,867	--
Other assets, net	91,229	50,483
Total other assets	985,144	494,060
Total assets	$ 119,777,056	$ 59,797,275
LIABILITIES AND BENEFICIARIES' EQUITY		
Liabilities:		
Notes payable	$ 27,847,563	$ 7,920,000
Dividends payable	2,307,620	1,518,896
Accounts payable	47,128	14,175
Interest payable	--	56,267
Borrower advances	3,668,640	579,133
Unearned commitment fees	1,105,955	599,978
Due to affiliates	11,895	844,786
Unearned construction monitoring fees	189,607	81,008
Total liabilities	35,178,408	11,614,243
Beneficiaries' equity:		
Common shares of beneficial interest; authorized 100,000,000 shares of $0.01 par value; 5,993,818 and 3,491,716 shares issued and outstanding at September 30, 1996 and December 31, 1995, respectively	59,938	34,917
Additional paid-in capital	84,864,849	48,326,337
Cumulative net income	12,948,254	8,111,318
Cumulative dividends	(13,274,393)	(8,289,540)
Total beneficiaries' equity	84,598,648	48,183,032
Total liabilities and beneficiaries' equity	$ 119,777,056	$ 59,797,275
Net asset value per share	$ 14.11	$ 13.80

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

PMC COMMERCIAL TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Nine Months Ended September 30, 1996	1995
Revenues:		
Interest income - loans	$ 5,940,964	$ 3,904,196
Interest and dividends - other investments	824,020	324,046
Other income	306,094	199,718
Total revenues	7,071,078	4,427,960
Expenses:		
Advisory and servicing fees, net	799,764	654,666
Legal and accounting fees	39,393	56,125
General and administrative	94,358	89,581
Interest	1,300,627	59,439
Total expenses	2,234,142	859,811
Net income	$ 4,836,936	$ 3,568,149
Net income per share	$ 1.12	$ 1.03
Weighted average shares outstanding	4,324,154	3,445,660

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

PMC COMMERCIAL TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,	
	1996	1995
Revenues:		
Interest income - loans	$ 2,185,996	$ 1,520,418
Interest and dividends - other investments	565,252	7,206
Other income	187,272	64,120
Total revenues	2,938,520	1,591,744
Expenses:		
Advisory and servicing fees, net	193,201	280,559
Legal and accounting fees	13,756	8,635
General and administrative	37,798	22,660
Interest	515,646	25,147
Total expenses	760,401	337,001
Net income	$ 2,178,119	$ 1,254,743
Net income per share	$ 0.37	$ 0.36
Weighted average shares outstanding	5,859,901	3,447,271

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

PMC COMMERCIAL TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,836,936	$ 3,568,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of:		
Discount on purchased loans	(21,811)	(19,574)
Deferred commitment fees	(410,703)	(337,641)
Construction monitoring fees	(109,129)	(129,938)
Amortization of organization and borrowing costs	58,615	6,030
Commitment fees collected	1,198,275	519,680
Construction monitoring fees collected, net	217,728	27,798
Changes in operating assets and liabilities:		
Accrued interest receivable	(74,172)	(127,209)
Other assets	(46,776)	--
Deferred borrowing costs	(450,452)	--
Interest payable	(56,267)	--
Borrower advances	3,089,507	(1,188,800)
Due to affiliates	(832,891)	318,485
Accounts payable	32,953	2,541
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,431,813	2,639,521
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans funded	(26,586,654)	(24,879,204)
Principal collected	5,301,048	4,117,226
Investment in restricted cash	(2,502,968)	--
NET CASH USED IN INVESTING ACTIVITIES	(23,788,574)	(20,761,978)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	36,996,314	60,541
Proceeds from issuance of notes payable	39,140,770	2,390,000
Payment of dividends	(4,077,280)	(3,130,229)
Payment of stock offering costs	(551,630)	--
Payment of principal on notes payable	(19,213,207)	(40,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	52,294,967	(719,688)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,938,206	(18,842,145)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	207,183	18,850,103
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 36,145,389	$ 7,958
SUPPLEMENTAL DISCLOSURES:		
Dividends reinvested	$ 118,849	$ 21,759
Dividends declared, not paid	$ 2,307,620	$ 1,138,594
Interest paid	$ 1,306,076	$ 30,747

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

PMC COMMERCIAL TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying consolidated financial statements of PMC Commercial Trust ("PMC Commercial") and its subsidiaries (collectively the "Company") as of and for the three and nine months ended September 30, 1996 and 1995 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 September 30, 1996, results of operations for the three and nine months ended September 30, 1996 and 1995, and cash flows for the nine months ended September 30, 1996 and 1995. 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 1995 Annual Report on Form 10-K.

The results for the nine months ended September 30, 1996, are not necessarily indicative of future financial results.

NOTE 2. BASIS FOR CONSOLIDATION

On March 7, 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 the three and nine month periods ended September 30, 1996, PMC Commercial declared dividends to its shareholders of beneficial interest of $0.385 and $1.135 per share, respectively.

NOTE 4. DUE TO AFFILIATE

Pursuant to an investment management agreement (the "Investment Management Agreement") between the Company and PMC Advisers, Inc., an affiliated entity (the "Investment Manager"), the Company incurred fees of approximately $1.3 million for the nine months ended September 30, 1996. Of the amount of servicing and advisory fees paid or payable to the Investment Manager as of September 30, 1996, $219,500 has been offset against commitment fees as a direct cost of originating loans.

NOTE 4. DUE TO AFFILIATE (CONTINUED)

Effective July 1, 1996, the Investment Management Agreement was amended to include compensation to the Investment Manager for its assistance in the issuance of the Company's debt and equity securities. Such compensation includes a consulting fee based on (i) 12.5% of any offering fees (underwriting or placement fees) incurred by the Company pursuant to the public offering or private placement of the Company's common shares, and (ii) 50% of any issuance or placement fees incurred by the Company pursuant to the issuance of the Company's debt securities or preferred shares of beneficial interest. Pursuant to the amended Investment Management Agreement, PMC Commercial incurred fees of $251,000 pursuant to the Investment Management Agreement as a cost of issuing its common shares (see Note 6), which has been offset against additional paid-in capital on the accompanying September 30, 1996 consolidated balance sheet.

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 calendar day period immediately following such public offering. In no event will the aggregate annual fees charged under the new agreement be greater than that which would have been charged had there been no revision to the Investment Management Agreement.

NOTE 5. NOTES PAYABLE

On March 12, 1996, the Partnership, a special purpose affiliate of PMC Commercial, completed a private placement of $29.5 million of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "Notes"). The Notes, issued at par, which mature in 2016 and bear interest at the rate of 6.72% per annum, are collateralized by approximately $39.7 million of loans contributed by PMC Commercial to the Partnership at inception (of which $37.7 million remained outstanding at September 30, 1996). In connection with this private placement, the Notes were given a rating of "AA" by Duff and Phelps Credit Rating Co. The loans were originated or purchased by PMC Commercial in accordance with its underwriting criteria. The Partnership has the exclusive obligation for the repayment of the Notes, and the holders of the Notes have no recourse to PMC Commercial or its assets in the event of nonpayment other than the loans contributed to the Partnership and the restricted investments on the accompanying consolidated balance sheets. The net proceeds from the issuance of the Notes (approximately $27.1 million after giving effect to costs of $500,000 and a $1.9 million deposit held by the trustee as collateral) were distributed to PMC Commercial in accordance with its interest in the Partnership. PMC Commercial used such proceeds to pay down outstanding borrowings under its revolving credit facility and to make additional loans in accordance with its underwriting criteria. Approximately $27.9 million remained outstanding under the Notes at September 30, 1996.

NOTE 6. BENEFICIARIES' EQUITY

On July 2, 1996, PMC Commercial completed the sale of 2 million of its common shares of beneficial interest ("Common Shares") in a public offering and 60,000 Common Shares in a directed public offering (collectively, "the Offering"). The shares were sold at $15.625 per share, resulting in net proceeds to PMC Commercial of $30.4 million. In July 1996, PMC Commercial sold an additional 275,000 Common Shares pursuant to the exercise of the over-allotment option by the underwriters of the Offering, for additional net proceeds of approximately $4.1 million. The proceeds of the Offering are being used to make additional loans in accordance with the Company's underwriting criteria. The Company incurred approximately $552,000 in costs in connection with the Offering which were offset against additional paid-in capital on the accompanying September 30, 1996 consolidated balance sheet.

NOTE 7. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125 (SFAS No. 125), "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities." Those standards have been established to provide a consistent application of accounting based on a financial-components approach which distinguishes the transfer of financial assets that are sales from those that are secured borrowings. This approach is based upon control of the related assets, whereby after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, and derecognizes financial assets when control has been surrendered and liabilities are extinguished. SFAS No. 125 is effective for transfer and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and may only be applied prospectively.

PART I
Financial Information

ITEM 2.
Management's Discussion and Analysis of Financial Condition
and Results of Operations

OVERVIEW

PMC Commercial was incorporated in June 1993 and had no operations prior to completion of its initial public offering (the "IPO") on December 28, 1993. The net proceeds to the Company from the IPO were $47.7 million, including over-allotment options.

During the three and nine months ended September 30, 1996, the Company funded $13 million and $26.6 million, respectively, of loans, all to businesses operating in the lodging industry. During the years ended December 31, 1995 and 1994, the Company originated and funded or purchased loans with a face value of $31.7 million and $35.2 million, respectively. As of September 30, 1996, the total portfolio outstanding was $81.5 million ($80.2 million after reductions for loans purchased at a discount and deferred commitment fees) with a weighted average contractual interest rate of approximately 11.1%. 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. Loans are collateralized primarily by first liens on real estate and are guaranteed, for all but one loan, by the principals of the businesses financed. Included in outstanding loans at September 30, 1996 is $2.7 million which was advanced pursuant to the Small Business Administration Section 504 loan program (the "SBA 504 program"). Interest rates charged on such advances are comparable to those which are customarily charged by the Company.

CERTAIN ACCOUNTING CONSIDERATIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the 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 loss reserve is established based on a determination, through an evaluation of the recoverability of individual loans, by the Company's Board of Trust Managers when significant doubt exists as to the ultimate collectability of one or more loans. To date, no loss reserves have been established. The determination of whether significant doubt exists and whether a loss provision is necessary for each loan requires judgment 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 loss reserves. At such time as a determination is made that there exists significant doubt as to the ultimate collectability of one or more loans requiring the establishment of a loss reserve, the effect to operating results may be material.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 1995

The net income of the Company during the nine months ended September 30, 1996 and 1995, was $4.8 million and $3.6 million, $1.12 and $1.03 per share, respectively. The Company's earnings per share during the nine months ended September 30, 1996 includes the effect of the issuance of 2,335,000 common shares of beneficial interest issued pursuant to a public offering in July 1996 (the "Offering").

Interest income - loans increased by $2.0 million (51%), from $3.9 million during the nine months ended September 30, 1995, to $5.9 million during the nine months ended September 30, 1996. This increase was primarily attributable to: (i) the reallocation of the Company's initial investment of the proceeds of the IPO from cash and U.S. Government securities to higher-yielding loans to small businesses and (ii) portfolio growth from the proceeds of borrowing arrangements and the Offering in July 1996. The average invested assets in loans to small businesses increased by $23.8 million (54%), from $43.7 million during the nine months ended September 30, 1995, to $67.5 million during the nine months ended September 30, 1996. The annualized average yields on loans for the nine months ended September 30, 1996 and 1995 were approximately 12.1% for both periods. Interest income - loans includes interest earned on loans, the accretion of discount on purchased loans (approximately $21,800 and $19,600 during the nine months ended September 30, 1996 and 1995, respectively) and the accretion of deferred commitment fees (approximately $191,000 and $144,000 during the nine months ended September 30, 1996 and 1995, respectively).

Interest and dividends - other investments increased by $500,000 (154%), from $324,000 during the nine months ended September 30, 1995, to $824,000 during the nine months ended September 30, 1996. This increase was due to the increase in funds available for short-term investments. The proceeds from the IPO were initially invested in government securities and money market funds until small business loans were funded. The Company completed a structured financing in March 1996, which resulted in net proceeds of $27.1 million, and the Offering in July 1996, which resulted in net proceeds of $34.5 million. These proceeds were initially invested in short-term investments and are being used to make loans in accordance with the Company's underwriting criteria. The average short-term investments of the Company increased by $14.5 million (188%), from $7.7 million during the nine months ended September 30, 1995, to $22.2 million during the nine months ended September 30, 1996. The average yields on short-term investments during the nine months ended September 30, 1996 and 1995 were approximately 5.0% and 5.6%, respectively.

Other income increased by $106,000 (53%), from $200,000 during the nine months ended September 30, 1995, to $306,000 during the nine months ended September 30, 1996. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment penalties, (iii) late and other loan fees and (iv) miscellaneous collections. The increase was primarily due to an increase in the collection of loan-related fees, such as assumption, modification and extension fees, of $89,000 from $23,000 during the nine months ended September 30, 1995 to $112,000 during the nine months ended September 30, 1996. Additionally, the income recognized from prepayment penalties increased by $20,500 from $51,500 during the nine months ended September 30, 1995 to $72,000 during the nine months ended September 30, 1996. These increases were offset by a decrease in income recognized from the monitoring of hospitality construction projects in process of $21,000, from $130,000 during the nine months ended September 30, 1995, to $109,000 during the nine months ended September 30, 1996.

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, corporate 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 PMC Commercial'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 $1.3 million in management fees for the nine months ended September 30, 1996, $251,000 of which were incurred as a cost of the Offering. Of the total management fees paid or payable to the Investment Manager during the nine months ended September 30, 1996, $219,500 has been offset against commitment fees as a direct cost of originating loans and the $251,000 described above has been offset against additional paid-in capital. Investment management fees were $848,000 for the nine months ended September 30, 1995. Of the total management fees paid or payable to the Investment Manager during the nine months ended September 30, 1995, $193,000 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees of $452,000 (prior to offsetting direct costs related to the origination of loans and the issuance of the Company's Common Shares), or 53 %, is primarily due to: (i) the average quarterly invested assets (as defined by the Investment Management Agreement), which increased by $24.2 million, or 47%, from $51.2 million during the quarter ended September 30, 1995, to $75.4 million during the quarter ended September 30, 1996, (ii) average quarterly total assets (as defined by the Investment Management Agreement), which increased by $32.7 million, or 62%, from $52.8 million during the quarter ended September 30, 1995, to $85.5 million during the quarter ended September 30, 1996, and (iii) average quarterly common equity (as defined by the Investment Management Agreement), which increased by $3 million, or 6%, from $47.8 million during the quarter ended September 30, 1995, to $50.8 million during the quarter ended September 30, 1996. All quarterly averages were calculated pursuant to the Investment Management Agreement.

Legal and accounting fees decreased by $17,000 (30%), from $56,000 during the nine months ended September 30, 1995, to $39,000 during the nine months ended September 30, 1996. This decrease is attributable to billing of accounting and corporate legal fees during the nine months ended September 30, 1995.

General and administrative expenses increased by $4,000 (4%), from $90,000 during the nine months ended September 30, 1995, to $94,000 during the nine months ended September 30, 1996. This increase is primarily attributable to an increase in costs related to printing expenses and the Company's structured financing and revolving credit facility during the nine months ended September 30, 1996.

Interest expense of approximately $1.3 million during the nine months ended September 30, 1996 relates primarily to interest on the structured financing (approximately $1.1 million), interest on the Company's revolving credit facility (approximately $138,000), the amortization of deferred borrowing costs (approximately $53,000) and interest incurred on borrower advances (approximately $24,000). The obligation to pay interest on borrower advances is included in borrower advances on the accompanying consolidated balance sheets. During the nine months ended September 30, 1995, interest expense on the Company's revolving credit facility was approximately $16,000 and interest expense on borrower advances was $43,000.

As the Company is currently qualified as a Real Estate Investment Trust ("REIT") under the applicable provisions of the Internal Revenue Code of 1986, as amended ("the Code"), there are no provisions in the financial statements for Federal income taxes.

THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 1995

The net income of the Company during the three months ended September 30, 1996 and 1995, was $2.2 million and $1.3 million, $0.37 and $0.36 per share, respectively. The Company's earnings per share during the three months ended September 30, 1996, includes the effect of the issuance of 2,335,000 common shares of beneficial interest issued pursuant to the Offering in July 1996.

Interest income - loans increased by $700,000 (47%), from $1.5 million during the three months ended September 30, 1995, to $2.2 million during the three months ended September 30, 1996. This increase was primarily attributable to (i) the reallocation of the Company's initial investment of the proceeds of the IPO in cash and U.S. Government securities to higher-yielding loans to small businesses and (ii) portfolio growth from the proceeds of borrowing arrangements and the Offering. The average invested assets in loans to small businesses increased by $23.6 million (46%), from $51.1 million during the three months ended September 30, 1995, to $74.7 million during the three months ended September 30, 1996. The annualized average yields on loans for the three months ended September 30, 1996 and 1995 were approximately 12.4% and 12.0%, respectively. Interest income - loans includes interest earned on loans, the accretion of a discount on purchased loans (approximately $7,500 and $6,700 during the three months ended September 30, 1996 and 1995, respectively) and the accretion of deferred commitment fees (approximately $76,000 and $33,000 during the three months ended September 30, 1996 and 1995, respectively).

Interest and dividends - other investments increased by $558,000 from $7,000 during the three months ended September 30, 1995, to $565,000 during the three months ended September 30, 1996. This increase was due to an increase in funds available for short-term investments which resulted from the completion of the structured financing in March 1996, and from the completion of the Offering in July 1996. The average short-term investments of the Company increased by $41.8 million, from $779,000 during the three months ended September 30, 1995, to $42.6 million during the three months ended September 30, 1996. The average yields on short-term investments during the three months ended September 30, 1996 and 1995 were approximately 5.3% and 3.7%, respectively.

Other income increased by $123,000 (192%), from $64,000 during the three months ended September 30, 1995, to $187,000 during the three months ended September 30, 1996. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment penalties, (iii) late and other loan fees and (iv) miscellaneous collections. The increase was primarily due to the collection of prepayment penalties during the three months ended September 30, 1996 of $72,000. Additionally, income recognized from other loan-related fees, such as assumption, modification and extension fees, increased by $55,000 from $14,000 during the three months ended September 30, 1995, to $69,000 during the three months ended September 30, 1996. These increases were offset by income recognized from the monitoring of hospitality construction projects in process which decreased by $11,000 from $50,000 during the three months ended September 30, 1995, to $39,000 during the three months ended September 30, 1996.

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. 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 Investment Management Agreement, the Company incurred an aggregate of $520,000 in management fees for the three months ended September 30, 1996, $251,000 of which were incurred as a cost of the Offering. Of the total management fees paid or payable to the Investment Manager during the three months ended September 30, 1996, $76,000 has been offset against commitment fees as a direct cost of originating loans and the $251,000 described above has been offset against additional paid-in capital. Investment management fees were $316,000 for the three months ended September 30, 1995. Of the total management fees paid or payable to the Investment Manager during the three months ended September 30, 1995, $35,000 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees of $204,000 (prior to offsetting direct costs related to the origination of loans and the issuance of the Company's common shares), or 65%, is primarily due to consulting fees incurred for the placement of common shares of $251,000. This increase was offset by a decrease in the Base Fee calculated pursuant to the Investment Management Agreement. The average quarterly invested assets increased by $24.2 million or 47% from $51.2 million during the quarter ended September 30, 1995 to $75.4 million during the quarter ended September 30, 1996, and average quarterly common equity capital increased by $3 million, or 6% from $47.8 million during the quarter ended September 30, 1995 to $50.8 million during the quarter ended September 30, 1996.

Legal and accounting fees increased by $5,000 (56%), from $9,000 during the three months ended September 30, 1995, to $14,000 during the three months ended September 30, 1996. This increase is attributable to billing of accounting and corporate legal fees during the three months ended September 30, 1996.

General and administrative expenses increased by $15,000 (65%), from $23,000 during the three months ended September 30, 1995, to $38,000 during the three months ended September 30, 1996. This increase is primarily attributable to an increase in costs related to printing expenses and the Company's structured financing and revolving credit facility during the three months ended September 30, 1996.

Interest expense of $516,000 relates primarily to interest on the structured financing (approximately $488,000), the amortization of deferred borrowing costs (approximately $23,000), and interest incurred on borrower advances (approximately $5,000) during the three months ended September 30, 1996. The obligation to pay interest on borrower advances is included in borrower advances on the accompanying consolidated balance sheets. During the three months ended September 30, 1995, the Company incurred interest expense on its revolving credit facility of $16,000 and interest on borrower advances of $9,000.

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

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.

In general, to meet its liquidity requirements, including expansion of its outstanding loan portfolio, the Company, after utilization of any available working capital, may use: (i) its short-term credit facility as described below, (ii) placement of long-term borrowings, (iii) issuance of debt securities and/or (iv) offerings of additional equity securities, including preferred shares of beneficial interest (the "Preferred Shares"). Pursuant to the Investment Management Agreement, if the Company does not have available capital to fund outstanding commitments, the Investment Manager will refer such commitments to PMC Capital, Inc., an affiliate of the Company, or to one or more of PMC Capital's subsidiaries.

During 1995, the Company completed an arrangement for a revolving credit facility providing the Company with funds to originate loans collateralized by commercial real estate. This credit facility provides the Company up to the lesser of $20 million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings. At September 30, 1996, the Company had no outstanding borrowings under the revolving credit facility and an availability of $20 million. The Company is charged interest on the balance outstanding, if any, under the revolving credit facility at the Company's election of either the prime rate of the lender less 50 basis points or 200 basis points over the 30, 60 or 90 day LIBOR.

During March 1996, the Company, through a limited partnership structure, completed a private placement of approximately $29.5 million of notes issued pursuant to a rated structured financing collateralized by a portion of the Company's commercial loan portfolio (the "Private Placement"). The financing resulted in net proceeds to the Company of approximately $27.1 million, of which approximately $10.3 million were used to repay outstanding borrowings under the Company's revolving credit facility. During July 1996, the Company completed the sale of 2,335,000 of its Common Shares in the Offering, resulting in net proceeds to the Company of $34.5 million.

As a result of the proceeds from the Private Placement and the Offering, the Company had $36.1 million of cash and cash equivalents at September 30, 1996. In addition, funds will be available to the Company from the proceeds of the dividend reinvestment plan and amounts received from the repayment of loans advanced pursuant to the SBA 504 program. At September 30, 1996, the Company had approximately $46 million in outstanding commitments to originate loans. To the extent the Company has available funds, an additional $5.1 million in commitments made by the Investment Manager were designated for the Company at September 30, 1996. It is anticipated that these loans will be funded by the Company. Such commitments are made in the ordinary course of the Company's business and 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 amount does not necessarily represent future cash requirements.

Loan demand has remained strong. The Private Placement and the Offering have provided the Company with sufficient funds to expand the outstanding portfolio consistent with historical growth levels. After utilization of these funds and until such time as additional long-term financing is available, the Company will continue to borrow funds based on a variable rate of interest by utilizing its revolving credit facility, and originating loans with a fixed-rate of interest. Net income on these leveraged funds will be materially dependent on the spread between the rate at which it borrows funds and the rate at which it loans these funds.

Management anticipates that (i) available short-term investments, (ii) availability under the revolving credit facility and (iii) proceeds from the dividend reinvestment plan and the SBA 504 loan program, will be adequate to meet its existing obligations.

RISKS ASSOCIATED WITH LEVERAGE

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 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.

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. 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.

PART II
Other Information

ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits

10.1 Investment Management Agreement between the Company and PMC Advisers, Inc., dated July 1, 1996.

27 Financial Data Schedule

B. Forms 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1996.

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.

PMC Commercial Trust

Date: 11/14/96 /s/ Lance B. Rosemore

Lance B. Rosemore
President

Date: 11/14/96 /s/ Barry N. Berlin

Barry N. Berlin
Chief Financial Officer
(Principal Accounting Officer)

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1	Investment Management Agreement between the Company and PMC Advisers, Inc., dated July 1, 1996.
27	Financial Data Schedule

EXHIBIT 10.1

INVESTMENT MANAGEMENT AGREEMENT

This Investment Management Agreement (the "Agreement") dated this 1st day of July, 1996 by and among PMC Commercial Trust, a Texas real estate investment trust (the "Company"), PMC Advisers, Inc., a Texas corporation ("PMC Advisers" or the "Investment Manager"), a wholly-owned subsidiary of PMC Capital, Inc. ("PMC Capital"), and PMC Capital.

1. CERTAIN DEFINITIONS

As used in this Agreement, the following terms have the meanings set forth below:

"Affiliate" shall mean a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned Person.

"Average Annual Value of All Invested Assets" shall mean the book value of the Invested Assets determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year divided by five.

"Average Annual Value of All Invested Assets at Date of Termination" shall mean the book value of the Invested Assets at Date of Termination determined in accordance with GAAP on the first day of the year and on the last day of each quarter of such year divided by five.

"Average Common Equity Capital" shall mean the Common Equity Capital on the first day of the year and on the last day of each quarter of such year, divided by five.

"Average Quarterly Value of All Assets" shall mean the book value of total assets of the Company or any Person wholly-owned (directly or indirectly) by the Company determined in accordance with GAAP on the first day of the quarter and on the last day of the quarter, divided by two.

"Average Quarterly Value of All Invested Assets" shall mean the book value of Invested Assets determined in accordance with GAAP on the first day of the quarter and on the last day of the quarter, divided by two.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Equity Capital" shall mean the sum of the stated capital plus the additional paid-in capital for the Common Shares.

"Common Shares" shall mean the Company's common shares of beneficial interest, par value $.01 per share.

"GAAP" shall mean generally accepted accounting principles.

"Independent Trust Managers" shall mean the trust managers of the Company who are not affiliated with PMC Capital or its subsidiaries.

"Invested Assets" shall have the meaning set forth in Section 2 of this Agreement.

"Invested Assets at Date of Termination" shall mean Primary Investments and Other Investments and any Primary Investments or Other Investments that arise from loan commitments, letters of intent or other agreements, in any case, as in existence on the Termination Date, as set forth on a schedule to be prepared by the Company and delivered to PMC Capital not later than 45 days from such date of termination, which schedule shall be annually updated by the Company and delivered to PMC Capital not later than 90 days following the end of each of the Company's fiscal years during which the Non-Compete Agreement (as defined in Section 10 of this Agreement) is in effect.

"Other Investments" shall have the meaning set forth in Section 2 of this Agreement.

"Person" shall mean an individual, corporation, partnership, association, trust or any unincorporated organization or other entity.

"Primary Investments" shall have the meaning set forth in Section 2 of this Agreement.

"Return on Average Common Equity Capital" means the net income of the Company determined in accordance with GAAP, less preferred dividends, if any, divided by the Average Common Equity Capital.

"Termination Date" shall mean the date on which this Agreement no longer has any force and effect, whether as a result of being terminated in accordance with the provisions of Section 10 hereof (following the expiration of the 60-day notice period provided for therein) or as a result of non-renewal (at the expiration of the term hereof) for whatever reason.

2. PURPOSE OF THE COMPANY

The Company intends primarily to originate business loans (a) to small business enterprises that exceed the net worth, asset, income, number of employees or other limitations applicable to the Small Business Administration ("SBA") programs utilized by PMC Capital, (b) in excess of $1,100,000 to small business enterprises without regard to SBA eligibility requirements, (c) for which PMC Capital does not have available funds to make such loans or (d) that cannot be originated by PMC Capital or its subsidiaries as a result of industry concentration limitations. All such loans (collectively, the "Primary Investments") will be secured by first liens on real estate and subject to the Company's underwriting criteria. In addition, the Company may (i) purchase from the Resolution Trust Company, the Federal Deposit Insurance Corporation and other sellers loans on which payments are current at the time of the Company's commitment to purchase and which meet the Company's underwriting criteria, (ii) invest in other commercial loans secured by real estate and (iii) invest in real estate (collectively, the "Other Investments"). At least 75% of the assets of the Company will be invested in the Primary Investments and up to 25% of the assets of the Company may be invested by the Company in Other Investments provided that such Other Investments do not affect the ability of the Company to maintain its qualification as a real estate investment trust under the Code.

Concurrently with the execution of this Agreement, the Company, PMC Advisers, and PMC Capital shall enter into a Loan Origination Agreement in the form of Exhibit A hereto (the "Loan Origination Agreement") pursuant to which PMC Advisers shall determine the allocation of the loan origination opportunities to either the Company or PMC Capital.

The Company's primary investment objective is to obtain current income from interest payments and other related fee income from Primary Investments originated by it and Other Investments acquired by it and, in each case, owned by the Company or by any Person wholly-owned (directly or indirectly) by the Company (collectively, the "Invested Assets") for distribution to its shareholders. The Company will invest in Invested Assets selected by the Investment Manager in accordance with underwriting criteria established by the trust managers with the intention of creating a portfolio of investments intended to preserve the capital base of the Company and generate income for distribution to the Company's shareholders. The Company's investments are anticipated to be held primarily to maturity.

3. THE INVESTMENT MANAGER

PMC Advisers shall act as the investment adviser to the Company, registered under the Investment Advisers Act of 1940, as amended. The Company hereto engages the services of PMC Advisers as the Company's Investment Manager.

4. OBLIGATIONS OF THE INVESTMENT MANAGER

As the Investment Manager, PMC Advisers will:

(a) advise the Company as to the acquisition and disposition of Invested Assets and temporary investments (collectively, "Investments") in accordance with the Company's underwriting criteria and investment policies;

(b) provide the Company with office space and services to the extent required by the Company's trust managers, officers and employees;

(c) maintain the Company's books of account and other records and files;

(d) report to the Company's trust managers, or to any committee or officer of the Company acting pursuant to the authority of the trust managers, at such times and in such detail as the trust managers deem appropriate in order to enable the Company to determine that its investment policies are being observed and implemented;

(e) undertake its obligations pursuant hereto and any other activities undertaken by PMC Advisers on the Company's behalf subject to any directives of the Company's trust managers or any duly constituted committee or officer of the Company acting pursuant to authority of the Company's trust managers;

(f) subject to the Company's investment policies and any specific directives from the Company's trust managers, to effect acquisitions and dispositions for the Company's account in the Investment Manager's discretion and to arrange for the documents representing acquired Investments to be delivered to the Company's custodian;

(g) on a continuing basis, monitor, manage and service the Company's Investments; and

(h) arrange debt and equity financing for the Company, subject to policies adopted by the Company's trust managers.

5. EXPENSES TO BE PAID BY THE INVESTMENT MANAGER

The Investment Manager will pay for its own account all expenses incurred by it in rendering the services hereunder without regard to the compensation received by the Investment Manager from the Company hereunder. Without limiting the generality of the foregoing, the Investment Manager shall bear the following expenses incurred in connection with the performance of its duties under this Agreement:

(a) employment expenses of the personnel employed by the Investment Manager (other than fees paid and reimbursement of expenses made to independent managers, independent contractors, mortgage services, consultants, managers, local property managers or agents employed by or on behalf of the Company including such persons or entities which may be Affiliates of the Investment Manager when acting in any such capacity, all of which shall be the responsibility of the Company), including but not limited to, salaries, wages, payroll taxes and the costs of employee benefit plans;

(b) rent, telephone, utilities, office furniture, equipment and machinery (including computers, to the extent utilized) and other office expenses of the Investment Manager, except to the extent such expenses relate solely to an office maintained by the Company separate from the office of the Investment Manager; and

(c) miscellaneous administrative expenses incurred in supervising, monitoring and inspecting real property and such other investments of the Company or relating to the performance by the Investment Manager of its obligations hereunder.

Notwithstanding the foregoing, any share options granted by the Company to directors, officers and key employees of the Investment Manager shall not be an expense to be borne by the Investment Manager pursuant to this Section 5.

6. EXPENSES TO BE PAID BY THE COMPANY

Except as expressly otherwise provided in this Agreement, the Company will pay any expenses incurred by the Company and will reimburse the Investment Manager promptly, against the Investment Manager's voucher, for any such expenses paid by the Investment Manager for the Company's account. Without limiting the generality of the foregoing, such expenses shall include:

(a) all expenses of the Company's organization and of any offering and sale by the Company of its shares;

(b) expenses of the Company operations, except as otherwise provided in Section 5 above;

(c) financing costs and debt service with respect to indebtedness of the Company;

(d) taxes on income and taxes and assessments on real property, if any, and all other taxes applicable to the Company;

(e) legal, auditing, accounting, underwriting, brokerage, listing, reporting, registration and other fees, and printing, engraving and other expenses and taxes incurred in connection with the issuance, distribution, transfer, trading, registration and stock exchange listing of the Company's securities, whether such expenses are directly incurred by the Company or are allocated to the Company by the Investment Manager either pursuant to this Agreement or as otherwise agreed to by the Board of Trust Managers of the Company from time to time;

(f) expenses of organizing, revising, amending, converting, modifying or terminating the Company;

(g) fees and expenses paid to trust managers and officers who are not employees or Affiliates of the Investment Manager, independent advisors, independent contractors, mortgage services, consultants, managers, local property managers or management firms, accountants, attorneys and other agents employed by or on behalf of the Company and out-of-pocket expenses of trust managers of the Company;

(h) expenses directly connected with the acquisition, disposition and ownership of Invested Assets, including real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, brokerage and sales commissions, maintenance, repair, improvement and local management of property), other than expenses with respect thereto of employees of the Investment Manager to the extent that such expenses are to be borne by the Investment Manager pursuant to Section 5 above, and any expenses allocated to the Company by the Investment Manager as agreed to by the Board of Trust Managers of the Company from time to time;

(i) all insurance costs incurred in connection with the Company (including officer and trust manager liability insurance, if any);

(j) expenses connected with payments of dividends or interest or contributions in cash or any other form made or caused to be made by the trust managers to holders of securities of the Company;

(k) all expenses connected with communications to holders of securities of the Company and other bookkeeping and clerical work necessary to maintaining relations with holders of securities, including the cost of printing and mailing certificates for securities and proxy solicitation materials and reports to holders of the Company securities;

(l) transfer agent's, registrar's and indenture trustee's fees and charges;

(m) legal, accounting and auditing fees and expenses; and

(n) expenses relating to any office or office facilities maintained by the Company separate from the office of the Investment Manager.

If the Company uses the services of attorneys or paraprofessionals on the staff of the Investment Manager in lieu of outside counsel for purposes other than the performance of the services to be performed by the Investment Manager hereunder, the Company will reimburse the Investment Manager for such services at hourly rates calculated to cover the cost of such services, as well as for incidental disbursements.

7. RECEIPT OF FEES

All fees that may be paid to the Investment Manager by any person in connection with any investment transaction in which the Company participates or proposes to participate shall be paid over or credited to the Company at the time such investment transaction is consummated. The Investment Manager may, on the other hand, retain for its own account any fees paid to it by any such person for any services rendered to such person which is not related to any such investment transaction. For this purpose, any fees paid for services rendered by attorneys on the staff of the Investment Manager in connection with any such investment transaction shall be treated as transaction costs and shall not be deemed to be fees paid to the Investment Manager in connection with any investment transaction. The Investment Manager will report to the Company's trust managers not less often than quarterly all fees received by the Investment Manager from any source whatever and whether, in its opinion, any such fee is one that the Investment Manager is entitled to retain under the provisions of this Section 7. In the event that any trust manager should disagree, the matter shall be conclusively resolved by a majority of the trust managers of the Company, including a majority of the Independent Trust Managers.

8. COMPENSATION OF THE INVESTMENT MANAGER

As the Investment Manager's sole and exclusive compensation for its services to be rendered pursuant to the terms set out above, the Company will, during the term of this Agreement, pay to the Investment Manager the following fees, beginning as of the date of this Agreement:

I. Quarterly in arrears, a fee ("Base Fee") consisting of a quarterly servicing and advisory fee equal to the sum of (a) the product of 0.4167% (1.67% on an annual basis) multiplied by the lesser of (i) the Average Quarterly Value of Common Equity Capital or (ii) the Average Quarterly Value of All Invested Assets and (b) the product of 0.21875% (0.875% on an annual basis) and the difference between the Average Quarterly Value of All Invested Assets and the Average Quarterly Value of Common Equity Capital. Notwithstanding the foregoing or any other provision contained herein, the Base Fee payable to the Investment Manager hereunder shall be reduced for each quarter during the term of this Agreement by an amount equal to the amount of servicing or supervisory servicing fees, if any, required to be paid for such quarter by the Company to any third party which is unaffiliated with the Company or the Investment Manager for the servicing of any Invested Assets. For purposes of calculating the Base Fee, the Average Quarterly Value of Common Equity Capital shall not be 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 calendar day period immediately following such public offering.

II. Quarterly in arrears, a consulting fee equal to the sum of (a) the product of 50% multiplied by the amount of fees contractually due to any third party assisting in the placement of any of the Company's debt securities or preferred shares of beneficial interest and (b) the product of 12.5% multiplied by the amount of any fees contractually due any third party assisting in the placement or underwriting of any private or public offering of Common Shares (the "Offering Fee"). If the Offering Fee is less than 5.5%, the consulting fee shall be increased by an amount equal to the product of (i) 50% of the difference between 5.5% and the actual Offering Fee multiplied by (ii) the gross proceeds of the offering.

In no event, however, shall the aggregate amount of the fees payable to the Investment Manager pursuant to this Section 8 exceed, on an annual basis, the fees that would have been payable to the Investment Manager pursuant to the terms of Section 8 of the prior Investment Management Agreement between the Company and the Investment Manager, which terms are attached hereto as Exhibit B.

9. INDEMNIFICATION OF THE INVESTMENT MANAGER

The Company confirms that in performing services hereunder the Investment Manager (including its directors, officers and employees) will be an agent of the Company for the purpose of the indemnification provisions of the Company's Declaration of Trust, as amended, and Bylaws, subject, however, to the same limitations as though the Investment Manager were a director or officer of the Company. The Investment Manager shall not be liable to the Company, its shareholders or its creditors except for violations of law or for conduct which would preclude the Investment Manager from being indemnified under such provisions.

10. TERM OF THE AGREEMENT; TERMINATION

The term of this Agreement shall commence as of the first day of July 1996 and shall remain in effect and is renewable annually thereafter by the Company, if (a) a majority of the Independent Trust Managers determines that (i) the Investment Manager's performance has been satisfactory and (ii) the terms of this Agreement are appropriate with respect to the Company's performance and then existing economic conditions and (b) a majority of the independent directors of the Investment Manager approve the renewal of this Agreement.

Notwithstanding any other provision of this Agreement to the contrary, this Agreement, or any extension thereof, may be terminated by either party thereto upon at least sixty (60) days' notice to the other party specifying the effective date of such termination, pursuant to a majority vote of the Independent Trust Managers or upon the vote of the holders of more than two-thirds of the outstanding shares of the Company, or, in the case of a termination by the Investment Manager, by a majority vote of the independent directors of the Investment Manager.

In the event this Agreement is terminated or not renewed by (i) the Company, other than as a result of a material breach of the terms of this Agreement by the Investment Manager, or (ii) the Investment Manager as a result of a material breach of the terms of this Agreement by the Company, PMC Capital shall enter into a non-compete agreement, substantially in the form attached hereto as Exhibit C, which shall have a term of seven (7) years following the Termination Date (the "Non-Compete Agreement"). The payment to be made by the Company to PMC Capital as consideration for the Non-Compete Agreement entered into as a result of in the occurrence of any event set forth in clause (i) or (ii) in the preceding sentence shall be an amount equal to the product of the Non-Compete Percentage (as hereinafter defined) multiplied by the Average Annual Value of All Invested Assets at Date of Termination, calculated and payable on an annual basis and prorated on the basis of a 360-day year for any portion of a calendar year during which the Non-Compete Agreement is in effect. In the event this Agreement is terminated or not renewed by (x) the Company as a result of a material breach of the terms of this Agreement by the Investment Manager or (y) the Investment Manager, other than as a result of a material breach of the terms of this Agreement by the Company, PMC Capital shall enter into the Non-Compete Agreement either on the terms and conditions provided herein and in Exhibit C hereto or, at the Company's option, such other terms as may be mutually agreeable to PMC Capital and the Company. The "Non-Compete Percentage" shall be equal to

1% less the amount of the percentage, determined by dividing the dollar amount of loan losses on the Invested Assets at Date of Termination in any year (or portion thereof) during which the Non-Compete Agreement is in effect (as determined based on the audited financial statements of the Company for that year), by the Average Annual Value of All Invested Assets at Date of Termination for such year, in excess of 1%. In no event will the annual fee payable pursuant to the Non-Compete Agreement be reduced below zero. Notwithstanding anything contained in this Section 10 to the contrary, in the event that, following the Termination Date, the Company has foreclosed on an outstanding loan and has liquidated the collateral relating thereto and otherwise exhausted all remedies available to it to collect any remaining deficiency on such obligation, the Company shall, upon written request of the Investment Manager, transfer to the Investment Manager all files related to such loan. If the Investment Manager is successful in collecting any additional amount of the deficiency it may retain 1% of such additional amount and shall return the remainder to the Company.

11. ASSIGNMENT, AMENDMENTS AND WAIVERS

The Company may terminate this Agreement at any time in the event of its assignment by the Investment Manager except an assignment to a corporation, association, trust or other successor organization which may take over the property and carry on the affairs of the Investment Manager, provided that following such assignment the Persons who controlled the operations of the Investment Manager on the date such Investment Manager became an advisor to the Company shall control the operation of the successor organization, including the performance of its duties under this Agreement, and they shall be bound by the same restrictions by which they were bound prior to such assignment; however, if at any time subsequent to such an assignment such Persons shall cease to control the operations of the successor organization, the Company may thereupon terminate this Agreement. Such an assignment or any other assignment of this Agreement by the Investment Manager shall bind the assignee hereunder in the same manner as the Investment Manager is bound hereunder. This Agreement shall not be assignable by the Company without the prior written consent of the Investment Manager, except in the case of any assignment by the Company to a Person which is the successor to the Company, in which case such successor shall be bound hereby and by the terms of said assignment in the same manner and to the same extent as the Company is bound hereby. Any successor organization that is a permitted assignee under this Section 11, whether a successor to the Investment Manager or to the Company, shall be obligated to execute such agreements, certificates or other documents as the nonassigning party shall reasonably request to evidence that such successor organization is bound hereby.

This Agreement may not be amended, supplemented or discharged, and none of its provisions may be modified, except expressly by an instrument in writing signed by the party to be charged, provided that, in the case of the Company, such amendment, supplement, discharge or modification must be approved by a majority vote of the Independent Trust Managers or by a vote of the holders of more than two-thirds of the outstanding shares of the Company and, in the case of the Investment Manager, such amendment, supplement, discharge or modification must be approved by a majority vote of the independent directors of the Investment Manager.

Any term or provision of this Agreement may be waived, but only in writing by the party which is entitled to the benefit of that provision. No waiver by any party of any default with respect to any provision, condition or requirement hereof shall be deemed to be a continuing waiver in the future thereof or a waiver of any other provision, condition or requirement hereof; nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

12. OTHER ACTIVITIES OF INVESTMENT MANAGER

Nothing herein shall prevent the Investment Manager or its Affiliates from engaging in other activities or businesses or from acting as advisor to any other Person (including other real estate investment trusts) or from managing other investments including those of investors or investments advised, sponsored or organized by the Investment Manager even though such Person has investment policies and objectives similar to those of the Company; provided, however, that the Investment Manager shall notify the Company in writing in the event that it does so act (or intends to so act) as an advisor to another real estate investment trust. The Investment Manager may also render such services to joint ventures and partnerships in which the Company is a co-venturer or partner and to the other entities in such joint ventures and partnerships. Except with respect to loan origination opportunities allocated pursuant to the Loan Origination Agreement, the Investment Manager shall be free from any obligation to present to the Company any particular investment opportunity which comes to the Investment Manager. In addition, nothing herein shall prevent any shareholder or Affiliate of the Investment Manager from engaging in any other business or from rendering services of any kind to any other corporation, partnership or other entity (including competitive business activities).

Directors, officers, employees and agents of the Investment Manager or of its Affiliates may serve as trust managers, officers, employees, agents, nominees or signatories of the Company. When executing documents or otherwise acting in such capacities for the Company, such persons shall use their respective titles in the Company. Such persons shall receive from the Company no compensation for their services to the Company in such capacities.

13. BANK ACCOUNTS

The Investment Manager shall establish and maintain one or more bank accounts in its own name or, at the direction of the trust managers, in the name of the Company, and shall collect and deposit into such account or accounts and disburse therefrom any monies on behalf of the Company, provided that no funds in any such account shall be commingled with any funds of the Investment Manager or any other Person. The Investment Manager shall from time to time render an appropriate accounting of such collections and payments to the trust managers and to the auditors of the Company.

14. PROTECTION OF INVESTMENTS

The Investment Manager shall use its efforts, in cooperation with the legal counsel to the Company, as deemed appropriate in the Investment Manager's reasonable discretion, (a) to verify title to or procure title insurance in respect of any property in which the Company makes or proposes to make any investment; (b) to verify that any mortgage securing any Investment of the Company shall be a valid lien upon the mortgaged property according to its terms; that any insurance or guaranty issued by the Federal Housing Authority, the Veterans Administration or any similar agency of the United States or Canada, or any subdivision thereof, or any private mortgage insurance company, upon which the trust managers rely, is valid and in full force and effect and enforceable according to its terms; and that any commitments to provide permanent financing on property with respect to which the Company is furnishing interim loans are satisfactory; and (c) to carry on the policies from time to time specified by the trust managers with regard to the protection of the Company's Investments.

15. RECORDS

The Investment Manager shall maintain appropriate books of account and records relating to services performed pursuant hereto, which books of account and records shall be available for inspection by representatives of the Company upon reasonable notice during normal business hours.

16. REIT QUALIFICATION

Anything else in this Agreement to the contrary notwithstanding, the Investment Manager shall not take any action (including, without limitation, furnishing or rendering services to tenants of property or managing real property), which action, in its judgment made in good faith, or in the judgment of the trust managers as transmitted to the Investment Manager in writing, would (a) adversely affect the status of the Company as a real estate investment trust as defined and limited in the Code or which would make the Company subject to the Investment Company Act of 1940, as amended, if not in the best interest of the Company's shareholders or (b) violate any law, rule, regulation or statement of policy of any government body or agency having jurisdiction over the Company or over its securities, or (c) otherwise not be permitted by the Declaration of Trust, as amended, or Bylaws of the Company, except if such action shall be ordered by the trust managers, in which event the Investment Manager shall promptly notify the trust managers of the Investment Manager's judgment that such action or omission to act would adversely affect such status or violate any such law, rule or regulation or the Declaration of Trust, as amended, or Bylaws of the Company and shall refrain from taking such action pending further clarification or instructions from the trust managers. In addition, the Investment Manager shall take such affirmative steps which, in its good faith judgment, or in the judgment of the trust managers as transmitted to the Investment Manager in writing, would prevent or cure any action described in (a), (b) or (c) above.

17. SELF-DEALING

Neither the Investment Manager nor any Affiliate of the Investment Manager shall sell any property or assets to the Company or purchase any property or assets from the Company, directly or indirectly, except as approved by a majority of the Independent Trust Managers, provided that any Person wholly-owned (directly or indirectly) by the Company may sell property or assets to the Company or purchase assets from the Company without such approval. In addition, except as approved by a majority of the Independent Trust Managers, neither the Investment Manager nor any Affiliate of the Investment Manager shall receive any commission or other remuneration, directly or indirectly, in connection with the activities of the Company (except as expressly provided herein) or any joint venture or partnership in which the Company is a party, unless such joint venture or partnership is wholly-owned (directly or indirectly) by the Company. Except for compensation received by the Investment Manager pursuant to Section 8 hereof, all commissions or other remuneration received by the Investment Manager or an Affiliate of the Investment Manager and not approved by the Independent Trust Managers under this Section 17 shall be reported to the Company annually within ninety (90) days following the end of the Company's fiscal year.

18. NO PARTNERSHIP OR JOINT VENTURE

The Company and the Investment Manager are not partners or joint venturers with each other and neither the terms of this Agreement nor the fact that the Company and the Investment Manager have joint interest in any one or more investments shall be construed so as to make them such partners or joint venturers or impose any liability as such on either of them.

19. FIDELITY BOND

The Investment Manager shall not be required to obtain or maintain a fidelity bond in connection with the performance of its services hereunder.

20. JURISDICTION

This Agreement shall be governed by the laws of Texas.

21. LIMITATION OF LIABILITY

The Declaration of Trust establishing the Company (the "Declaration"), a copy of which is duly filed with the County Clerk for Dallas County, Texas, provides that the name "PMC Commercial Trust" refers to the trust managers under the Declaration collectively as trust managers, but not individually or personally; and that no trust manager, officer, shareholder, employee or agent of the Company or its subsidiaries shall be held to any personal liability, jointly or severally, for any obligation of, or claim against, the Company or its subsidiaries. All persons dealing with the Company, in any way, shall look only to the assets of the Company for the payment of any sum or the performance of any obligations. Notwithstanding the foregoing, the Investment Manager hereby acknowledges and agrees that it shall look only to the assets of the Company for the payment of any sum or performance of any obligations due by or from the Company pursuant to the terms and provisions hereof. Furthermore, except as otherwise expressly provided herein, in no event shall the Company (original or successor) ever be liable to the Investment Manager for any indirect or consequential damages suffered by the Investment Manager from whatever cause.

22. SURVIVAL OF OBLIGATIONS

The obligations of the Company, PMC Capital and the Investment Manager set forth in Section 10 hereof shall survive any termination or non-renewal of this Agreement for a period of seven (7) years following the Termination Date.

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

PMC COMMERCIAL TRUST

By:

Andrew S. Rosemore
Chairman of the Board and
Executive Vice President

PMC ADVISERS, INC.

By:

Lance B. Rosemore
President

PMC CAPITAL, INC.

By:

Lance B. Rosemore
President

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE SEPTEMBER 31, 1996 FORM 10Q OF PMC COMMERCIAL TRUST AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
11,803
36,133,586
80,639,603
0
0
0
0
0
119,777,056
7,330,845
27,847,563
0
0
84,924,787
(326,139)
119,777,056
0
7,071,078
0
0
933,515
0
1,300,627
4,836,936
0
4,836,936
0
0
0
4,836,936
1.12
1.12

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

Includes the following items not included above:

(i)	Other assets, net	$ 91,229
(ii)	Deferred borrowing costs	397,867
(iii)	Restricted investments	2,502,968
		$2,992,064

Includes the following:

(i)	Dividends payable	$2,307,620
(ii)	Accounts payable	47,128
(iii)	Interest payable	-
(iv)	Borrower advances	3,668,640
(v)	Unearned commitment fees	1,105,955
(vi)	Due to affiliates	11,895
(vii)	Unearned construction monitoring fees	189,607
		$7,330,845