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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 **June 30, 2001**

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 1-13610

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.)
18111 Preston Road, Suite 600, 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 August 13, 2001, Registrant had outstanding 6,440,391 Common Shares of Beneficial Interest, par value $.01 per share.

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PART I

Financial Information

ITEM 1.

Financial Statements

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

	June 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Investments:		
Loans receivable, net	$ 62,236	$ 65,645
Real estate investments, net	58,477	65,674
Retained interests in transferred assets	16,787	11,203
Cash equivalents	5,344	379
Restricted investments	5,284	6,709
Asset acquired in liquidation	424	495
Total investments	148,552	150,105
Other assets:		
Cash	66	108
Interest receivable	371	393
Deferred borrowing costs, net	380	415
Other assets, net	111	378

Total other assets	928	1,294
Total assets	$149,480	$151,399
LIABILITIES AND BENEFICIARIES' EQUITY		
Liabilities:		
Notes payable	$ 50,105	$ 53,235
Dividends payable	2,376	2,349
Borrower advances	1,647	1,284
Due to affiliates	604	1,908
Unearned commitment fees	229	343
Interest payable	300	315
Other liabilities	1,987	2,180
Total liabilities	57,248	61,614
Commitments and contingencies		
Beneficiaries' equity:		
Common shares of beneficial interest; authorized 100,000,000 shares at June 30, 2001 of $0.01 par value; 6,571,291 and 6,536,896 shares issued at June 30, 2001 and December 31, 2000, respectively; 6,439,841 and 6,431,646 shares outstanding at June 30, 2001 and December 31, 2000, respectively	66	65
Additional paid-in capital	94,615	94,349
Unrealized appreciation of retained interests in transferred assets	1,370	877
Cumulative net income	63,334	56,677
Cumulative dividends	(65,885)	(61,161)
	93,500	90,807
Less: Treasury stock; at cost, 131,450 shares and 105,250 shares, respectively	(1,268)	(1,022)
Total beneficiaries' equity	92,232	89,785
Total liabilities and beneficiaries' equity	$149,480	$151,399

The accompanying notes are an integral part of these consolidated financial statements.

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	**2000**	**2001**	**2000**
			(Unaudited)	
Revenues:				
Interest income – loans	$4,023	$ 5,687	$2,234	$2,757
Lease income	3,703	3,854	1,843	1,931
Interest and dividends – other investments	87	134	35	71
Income from retained interests in transferred assets	721	—	294	—
Other income	294	372	80	77
Total revenues	8,828	10,047	4,486	4,836
Expenses:				
Interest	2,164	3,433	1,191	1,687
Advisory and servicing fees to affiliate, net	821	1,038	378	489
Depreciation	1,048	1,148	530	574
General and administrative	146	89	110	40
Legal and accounting fees	49	51	34	16
Provision for loan losses	200	600	150	550
Total expenses	4,428	6,359	2,393	3,356
Income before gain on sale of assets	4,400	3,688	2,093	1,480
Gain on sale of assets	2,257	304	1,756	304
Net income	$6,657	$ 3,992	$3,849	$1,784
Basic weighted average shares outstanding	6,421	6,537	6,434	6,537

Diluted weighted average shares outstanding	6,433	6,537	6,435	6,537
Basic earnings per share	$ 1.04	$ 0.61	$ 0.60	$ 0.27
Diluted earnings per share	$ 1.03	$ 0.61	$ 0.60	$ 0.27

The accompanying notes are an integral part of these consolidated financial statements.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	**2000**	**2001**	**2000**
			(Unaudited)	
Net income	$6,657	$3,992	$3,849	$1,784
Change in unrealized appreciation of retained interests in transferred assets:				
Unrealized appreciation arising during period, net	514	—	543	—
Less realized gains included in net income	(21)	—	(16)	—
	493	—	527	—
Comprehensive income	$7,150	$3,992	$4,376	$1,784

The accompanying notes are an integral part of these consolidated financial statements.

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

	Six Months Ended June 30,	
	2001	**2000**
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 6,657	$ 3,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,048	1,148
Gain on sale of assets	(2,257)	(304)
Accretion of discount and commitment fees	(319)	(238)
Amortization of borrowing costs	35	121
Provision for loan losses	200	600
Loan fees collected, net	423	156
Changes in operating assets and liabilities:		
Accrued interest receivable	22	193
Other assets, net	266	(25)
Interest payable	(15)	71
Borrower advances	363	(64)
Due to affiliates	(1,304)	(581)
Other liabilities	(193)	(132)
Net cash provided by operating activities	4,926	4,937
Cash flows from investing activities:		
Loans funded	(32,328)	(4,225)
Principal collected	2,861	13,426
Proceeds from sale of property	7,219	3,062

Proceeds from retained interests in transferred assets	251	—
Investment in retained interests in transferred assets	(980)	—
Proceeds received from assets acquired in liquidation, net	71	—
Release of restricted investments, net	1,425	4,074
Purchase of furniture, fixtures and equipment	(245)	—
Net cash provided by (used in) investing activities	(21,726)	16,337
Cash flows from financing activities:		
Proceeds from securitization transaction	29,529	—
Proceeds from issuance of common shares	267	—
Purchase of treasury stock	(246)	—
Payments on revolving credit facility, net	—	(6,405)
Payment of principal on notes payable	(3,130)	(8,652)
Payment of dividends	(4,697)	(6,014)
Net cash provided by (used in) financing activities	21,723	(21,071)
Net increase in cash and cash equivalents	4,923	203
Cash and cash equivalents, beginning of year	487	228
Cash and cash equivalents, end of period	$ 5,410	$ 431
Supplemental disclosures:		
Dividends declared, not paid	$ 2,376	$ 3,007
Interest paid	$ 2,071	$ 3,253
Loans and interest receivable transferred to limited partnerships	$ 2,814	$ —

The accompanying notes are an integral part of these consolidated financial statements.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Interim Financial Statements:

The accompanying consolidated balance sheet of PMC Commercial Trust ("PMC Commercial" or together with its wholly-owned subsidiaries, "we", "us" or "our") as of June 30, 2001 and the consolidated statements of income and comprehensive income for the three and six months ended June 30, 2001 and 2000 and cash flows for the six months ended June 30, 2001 and 2000 have not been audited by independent accountants. In the opinion of management, the financial statements reflect all adjustments necessary to fairly present our financial position at June 30, 2001 and our results of operations for the three and six months ended June 30, 2001 and 2000. 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

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 and six months ended June 30, 2001 are not necessarily indicative of future financial results.

NOTE 2. Real Estate Investments:

As of June 30, 2001 our real estate investments consisted of 26 hospitality properties (the "Hotel Properties") we purchased from Arlington Hospitality, Inc. ("Arlington"), formerly known as Amerihost Properties, Inc., under a sale/leaseback agreement. Pursuant to the sale/leaseback agreement, we lease the Hotel Properties to Arlington Inns, a wholly-owned subsidiary of Arlington, for an initial 10-year period, with two renewal options of five years each, and with consumer price index ("CPI") increases up to a maximum of two percent per year beginning January 2002. During January 2001, we amended the sale/leaseback agreement with Arlington relating to the Hotel Properties. Arlington now has the option to either purchase or facilitate the purchase of eight of the Hotel Properties prior to June 30, 2004. The sale prices are set forth in the amended lease agreement. The stipulated price for each of the Hotel Properties exceeds our cost in the Hotel Properties. To the extent the purchases are not completed in an agreed upon time frame, the amended lease agreement provides for rent increases on our remaining Hotel Properties. In addition, the amendment modified the lease term extensions relating to

the properties remaining in our portfolio. During the six months ended June 30, 2001, we sold three properties for net proceeds of $7,200,000 and a net gain of approximately $824,000.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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(Unaudited)

At June 30, 2001, the aggregate base rent payment for the Hotel Properties was $6,320,000 per year subject to the CPI increases as described above, plus 4% (as amended in January 2001) of the gross room revenues as defined in the lease agreement. Arlington guarantees the lease payment obligation of Arlington Inns in the lease agreement. Arlington Hospitality, Inc. is a public entity that files periodic reports with the Securities and Exchange Commission. Additional information about Arlington Hospitality, Inc. can be obtained from the SEC's website at http://www.sec.gov.

Real estate investments consist of the following:

	June 30, 2001	December 31, 2000
	(In thousands)	
Land	$ 6,781	$ 7,681
Buildings and improvements	52,660	57,941
Furniture, fixtures and equipment	4,767	5,319
	64,208	70,941
Accumulated depreciation	(5,731)	(5,267)
Real estate investments, net	$58,477	$65,674

NOTE 3. Retained Interests in Transferred Assets:

Upon securitization and sale of our loan pools, we value the Retained Interests (as defined below) in accordance with Statement of Financial Accounting Standards 140 ("SFAS No. 140") "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" since our securitizations meet the definition of a transfer under SFAS No. 140. Our Retained Interests are comprised of three separate assets: (1) the "Reserve Fund," and the interest earned thereon, which consists of the cash required to be kept in a liquid cash account pursuant to the securitization documents, (2) the subordinated portion of the sold loans (commonly referred to as the "B" piece or the "over-collateralized" or "OC" portions of the loans), and (3) the excess cash flow that is to be received by us in the future after payment of (a) all interest and principal amounts due under the notes issued by the purchaser of the loans, (b) payment of all principal and interest on the "B" piece, (c) the repayment of the corpus of the Reserve Fund, and (d) costs. This excess cash flow stream is the interest-only strip receivable or the "IO Receivable."

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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(Unaudited)

Our Retained Interests are comprised of the following as of June 30, 2001 and December 31, 2000:

	June 30, 2001	December 31, 2000
	(In thousands)	
OC Piece	$ 8,995	$ 6,234
Reserve Fund	3,249	2,737
IO Receivable	4,543	2,232
Total	$16,787	$11,203

On December 18, 2000, we completed a co-securitization transaction with our affiliate, PMC Capital, Inc. (the "2000 Joint Venture"). Both PMC Commercial and PMC Capital, Inc. ("PMC Capital") sold loans to the 2000 Joint Venture. The 2000 Joint Venture issued approximately $74.5 million of its 2000 Loan-Backed Fixed Rate Notes (the "2000 Notes") of which approximately $49.5 million (the

"2000 PMCT Notes") was allocated to PMC Commercial based on its ownership percentage in the 2000 Joint Venture. At inception of the 2000 Joint Venture, PMC Commercial owned a 66% limited partnership interest in the 2000 Joint Venture with the remainder being owned by PMC Capital. Our ownership of the 2000 Joint Venture is reduced based on the principal payments received on the underlying loans contributed by PMC Commercial to the 2000 Joint Venture and is 67% at June 30, 2001. In accordance with SFAS No. 140, the 2000 Joint Venture is a Qualifying Special Purpose Entity ("QSPE") and, as such, not consolidated in the accompanying financial statements. The 2000 Notes were issued at par and have a stated maturity of July 2024. The 2000 Notes were issued with an annual interest rate of 7.28% and were originally collateralized in part by approximately $55.6 million of loans sold by PMC Commercial to the 2000 Joint Venture.

On June 27, 2001, we completed a co-securitization transaction with PMC Capital (the "2001 Joint Venture"). Both PMC Commercial and PMC Capital sold loans to the 2001 Joint Venture. The 2001 Joint Venture issued approximately $75.4 million of its 2001 Loan-Backed Fixed Rate Notes (the "2001 Notes") of which approximately $30.1 million (the "2001 PMCT Notes") was allocated to PMC Commercial based on its ownership percentage in the 2001 Joint Venture. At inception of the 2001 Joint Venture, PMC Commercial owned a 40% limited partnership interest in the 2001 Joint Venture with the remainder being owned by PMC Capital. Our ownership of the 2001 Joint Venture will be reduced based on the principal payments received on the underlying loans contributed by PMC Commercial to the 2001 Joint Venture. In accordance with SFAS No. 140, the 2001 Joint Venture is a QSPE and, as such, not consolidated in the accompanying financial statements. The 2001 Notes were issued at par and have a stated maturity of November 2021. The 2001 PMCT Notes were issued with an annual interest rate of 6.36% and were originally collateralized in part by approximately $32.7 million of loans sold by PMC Commercial to the 2001 Joint Venture. The 2001 Notes were rated "Aaa" by Moody's

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Investors Service. This transaction has been accounted for as a sale in accordance with SFAS No. 140 and accordingly, we recorded a gain of $1,433,000 in connection with this transaction.

Our share of the profits from the 2001 Joint Venture and 2000 Joint Venture are based upon the cash flow received from the underlying loans contributed by PMC Commercial to the QSPE's.

As there is no quoted market value of our Retained Interests, the fair value is based on management's estimate of the fair market value. This value may or may not vary significantly from what a willing buyer would pay for these assets. In determining the fair value of the Retained Interests as of June 30, 2001, we utilized certain assumptions which include:

Prepayment rate (a)	8% — 9% CPR
Loss rate (b)	Range from 0.4% to 0.8% per annum
Discount rate (c)	Range from 8.8% to 13.5%

(a) The prepayment rate is based on current performance of the respective loan pool, adjusted for anticipated principal payments considering the current loan pool and similar loans.

(b) Credit exposure exists to the extent of possible default on the underlying collateral requiring payment from anticipated future residual interests. We believe that a range of 0.4% to 0.8% loss rate covers this inherent risk.

(c) The discount rates are as of June 30, 2001 and are based upon our estimate of comparable rates of discount which would be used by potential purchasers of similar assets. The discount rate (1) is 8.8% for our "B" Piece, (2) is 10.5% for our Reserve Fund and (3) is 13.5% for our IO Receivable.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following information summarizes the 2000 Joint Venture's and the 2001 Joint Venture's financial position at June 30, 2001 and December 31, 2000 and the results of operations for the six months ended June 30, 2001:

Summary of Financial Position (1):

	PMC Joint Venture L.P. 2000		PMC Joint Venture L.P. 2001
	June 30,	December 31,	June 30,

	2001	2000	2001
		(In thousands)	
Loans Receivable	$80,676	$83,600	$ 80,282
Total Assets	$87,359	$87,416	$ 85,517
Notes Payable	$71,953	$74,505	$ 75,379
Total Liabilities	$72,390	$74,686	$ 75,419
Partners' Capital	$14,969	$12,730	$ 10,098

(1) Balances represent 100% of the limited partnership interests in PMC Joint Venture L.P. 2001 and PMC Joint Venture L.P. 2000.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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(Unaudited)

Summary of Operations (1):

	PMC Joint Venture L.P. 2000	PMC Joint Venture L.P. 2001
	Six Months Ended June 30,	
	2001	2001
	(In thousands)	
Interest Income	$4,007	$ 64
Total Revenues	$4,223	$211
Interest Expense	$2,661	$ 40
Total Expenses	$2,781	$ 40
Net Income	$1,442	$171

(1) Balances represent 100% of the limited partnership interests in PMC Joint Venture L.P. 2001 and PMC Joint Venture L.P. 2000.

PMC Commercial's limited partnership share of the assets, liabilities and partners' capital of the 2000 Joint Venture as of June 30, 2001 is $57.9 million, $48.2 million and $9.7 million, respectively. PMC Commercial's limited partnership share of the net income of the 2000 Joint Venture for the six months ended June 30, 2001 was approximately $1,085,000. PMC Commercial's limited partnership share of the assets, liabilities and partners' capital of the 2001 Joint Venture as of June 30, 2001 is $34.2 million, $30.1 million and $4.1 million, respectively. PMC Commercial's limited partnership share of the net income of the 2001 Joint Venture for the six months ended June 30, 2001 was approximately $156,000.

In accordance with SFAS No. 140, management has performed a sensitivity analysis of our Retained Interests to highlight the volatility that results when prepayments, losses and discount rates are different than management's original assumptions.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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The following summarizes the results of the sensitivity analysis on our Retained Interests as of June 30, 2001:

Changed Assumption	Pro-Forma Value	Amount of Asset reduction
Losses increase by 50 basis points per annum	$15,365,000	$1,422,000
Losses increase by 100 basis points per annum	$13,995,000	$2,792,000
Prepayments increase by 5% per annum	$16,196,000	$ 591,000
Prepayments increase by 10% per annum	$15,776,000	$1,011,000
Discount rates increase by 1%	$16,049,000	$ 738,000
Discount rates increase by 2%	$15,365,000	$1,422,000

NOTE 4. Notes Payable:

We have a revolving credit facility which provides funds to originate loans collateralized by commercial real estate. The revolving credit facility, as amended in November 1999, provides us with credit availability up to $45 million. The maximum amount (the "Borrowing Base") that we can borrow is based on our loans that are used as collateral for this facility. The Borrowing Base available on each loan is the greater of (a) 60% of the value of the project underlying the loan collateralizing the borrowing or (b) 85% of the amount of the loan outstanding. As of June 30, 2001 and December 31, 2000, we did not have any outstanding borrowings and availability of $45 million. We are charged interest on the balance outstanding under the credit facility at our election of either the prime rate of the lender or 162.5 basis points over the 30, 60 or 90 day LIBOR. The credit facility requires us to meet certain covenants, the most restrictive of which provides that the ratio of total liabilities to net worth (as defined in the credit facility) will not exceed 2.0 times. At June 30, 2001, we were in compliance with all covenants of this facility. The facility matures during November 2002.

NOTE 5. Beneficiaries' Equity:

For purposes of calculating diluted earnings per share, the weighted average shares outstanding were increased by approximately 1,000 and 12,000 shares for the effect of stock options during the three and six months ended June 30, 2001. The stock options outstanding during the three and six months ended June 30, 2000 were not dilutive.

Our Board has authorized a share repurchase program for up to 500,000 of our common shares. The shares may be bought from time to time in the open market or pursuant to negotiated transactions. As of June 30, 2001 we had acquired an aggregate of 131,450 shares under the share repurchase program for an aggregate purchase price of $1,268,000, including commissions. We have not acquired additional shares subsequent to June 30, 2001.

In both January 2001 and April 2001, we paid $0.365 per share in dividends to common shareholders of record. In June 2001 we declared a $0.375 per share dividend to common shareholders of record on June 29, 2001, which was paid during July 2001.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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(Unaudited)

NOTE 6. Related Party Transactions:

Our loans are originated and serviced by PMC Advisers, Ltd. and its subsidiary (together, "PMC Advisers"), which are wholly-owned subsidiaries of PMC Capital, pursuant to an Investment Management Agreement (the "IMA"). Property acquisitions are supervised pursuant to a separate agreement with PMC Advisers entered into in June 1998 (the "Lease Supervision Agreement" and together with the IMA the "IMAs").

Fees associated with the IMAs consist of the following:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands)			
Lease Supervision Fee	$ 232	$ 247	$ 112	$119
Investment Management Fee	785	836	426	415
Total fees incurred	1,017	1,083	538	534
Less:				
Cost of structured financing	(60)	—	(60)	—
Fees capitalized as cost of originating loans	(136)	(45)	(100)	(45)
Advisory and servicing fees to affiliate, net	$ 821	$1,038	$ 378	$489

NOTE 7. Commitments and Contingencies:

Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. At June 30, 2001, we had approximately $29.4 million of total loan commitments and approvals outstanding to 17 small business concerns predominantly in the lodging industry. Of the total loan commitments and approvals outstanding at June 30, 2001, we had approximately $7.3 million of loan commitments outstanding pertaining to seven partially funded construction loans and $2.3 million of commitments under the SBA 504 takeout program. Approximately $12.7 million of these commitments are for variable rate loans based on LIBOR. The spreads over LIBOR range from 3.75% to 4.25%. Including the variable rate commitments, the weighted average interest rate on loan commitments at June 30, 2001 was approximately 8.8%. The above 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. Commitments generally have fixed expiration dates and require payment of a fee. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Pursuant to the IMA, if we do not have funds available for our commitments, such commitments will be referred back to PMC Advisers.

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8. Business Segments:

Operating results and other financial data are presented for the principal business segments of PMC Commercial. These segments are categorized by line of business which also corresponds to how they are operated. The segments include (i) the Lending Division, which originates loans to small business enterprises, primarily in the lodging industry and (ii) the Property Division which owns commercial properties in the lodging industry. Our business segment data for the three and six months ended June 30, 2001 and 2000 is as follows:

	For the Three Months Ended June 30,					
	2001			2000		
	(In thousands)					
	Total	Lending Division	Property Division	Total	Lending Division	Property Division
Revenues:						
Interest income — loans and other portfolio income	$2,349	$2,349	$ —	$2,905	$2,905	$ —
Lease income	1,843	—	1,843	1,931	—	1,931
Income from retained interests in transferred assets	294	294	—	—	—	—
Total	4,486	2,643	1,843	4,836	2,905	1,931
Expenses:						
Interest	1,191	714	477	1,687	1,038	649
Advisory and servicing fees, net	378	266	112	489	370	119
Depreciation	530	—	530	574	—	574
Provision for loan losses	150	150	—	550	550	—
Other	144	144	—	56	56	—
Total	2,393	1,274	1,119	3,356	2,014	1,342
Income before gain on sale of assets	2,093	1,369	724	1,480	891	589
Gain on sale of assets	1,756	1,433	323	304	—	304
Net income	$3,849	$2,802	$1,047	$1,784	$ 891	$ 893

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	For the Six Months Ended June 30,

	2001			2000		
			(In thousands)			
	Total	Lending Division	Property Division	Total	Lending Division	Property Division
Revenues:						
Interest income — loans and other portfolio income	$4,404	$4,404	$ —	$ 6,193	$6,193	$ —
Lease income	3,703	—	3,703	3,854	—	3,854
Income from retained interest in transferred assets	721	721	—		—	
Total	8,828	5,125	3,703	10,047	6,193	3,854
Expenses:						
Interest	2,164	1,286	878	3,433	2,115	1,318
Advisory and servicing fees	821	589	232	1,038	791	247
Depreciation	1,048	—	1,048	1,148	—	1,148
Provision for loan losses	200	200	—	600	600	—
Other	195	185	10	140	140	—
Total	4,428	2,260	2,168	6,359	3,646	2,713
Income before gain on sale of assets	4,400	2,865	1,535	3,688	2,547	1,141
Gain on sale of assets	2,257	1,432	825	304	—	304
Net income	$6,657	$4,297	$2,360	$ 3,992	$2,547	$1,141

	As of June 30,					
	2001			2000		
			(In thousands)			
Total assets	$149,480	$88,800	$60,680	$179,512	$110,559	$68,953

Note 9. Subsequent Event:

During August 2001, we sold a Hotel Property for approximately $2.8 million. The gain from the sale is approximately $300,000.

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PART I
Financial Information

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

OVERVIEW

PMC Commercial is a real estate investment trust ("REIT") that originates loans to small business enterprises and owns limited service hospitality properties.

As a commercial lender, we originate loans primarily collateralized by first liens on real estate of the related business. Our loans are primarily to borrowers in the lodging industry, but we also originate loans for commercial real estate and the service, retail and manufacturing industries.

In addition, our investments include the ownership of commercial properties in the lodging industry. At June 30, 2001, we owned 26 properties with a net book value of $58.5 million. In 1998 and 1999 we acquired a total of 30 motel properties (the "Hotel Properties") from Arlington Hospitality, Inc. ("Arlington"), formerly known as Amerihost Properties, Inc., in a sale/leaseback transaction.

Our Board of Trust Managers (the "Board") has subsequently determined that it is preferable for us to focus on our lending operations. Accordingly, to the extent we can sell some or all of our Hotel Properties for greater than our cost in those properties, we intend to do so. In conjunction with this focus, we have amended our sale/leaseback agreement with Arlington to allow for the orderly sale of up to eight properties prior to June 2004. See "Property Ownership." During the six months ended June 30, 2001, we sold three properties for a net gain of approximately $825,000. We sold an additional property during August 2001 for a gain of approximately $300,000.

We intend to accomplish our goal of maximizing shareholder value by maintaining long-term growth in cash available for distribution to our shareholders. We currently have three principal strategies to achieve this objective: *First*, we anticipate increasing the funds from operations ("FFO") generated from our investment portfolio by increasing the size of our portfolio. A subsidiary of our affiliate, PMC Capital, Inc. ("PMC Capital"), identifies loan origination opportunities for us pursuant to an investment management agreement (the

"IMA"). We benefit from the established customer base of PMC Capital and their relationships with national hotel and motel franchisers. Our relationship with PMC Capital assists us in finding a consistent flow of lending opportunities. *Second*, we seek cost-effective financing to maximize our growth through structured financing and securitization arrangements and other funding sources. In December 2000 we completed our first co-securitization with PMC Capital and during June 2001 completed our second co-securitization. By using a joint venture structure, we reduced the percentage of up-front costs, we reduced the negative impact of having a larger amount of proceeds from the sale being initially invested in short-term (lower yielding)

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investments, and we completed the securitization transaction when it may not have been otherwise feasible due to high concentration and limited diversification of our loan portfolio on a stand-alone basis. *Third*, as detailed below, we intend to continue selectively selling our commercial real estate. Except as described below, any real estate sale is dependent upon the approval of the lessee.

Securitization is a technique that a lender uses to obtain financing so that it can fund additional loans. In a securitization, the lender is required to sell its loans to a separate entity and that entity issues debt collateralized by the loans. These entities are known as special purpose entities or SPE's. Since both our securitized loans and the cost of the debt payable to the SPE's security holder(s) are at a fixed-rate, a securitization mitigates the risk that the interest cost on our borrowed funds could increase while our loans rates remain fixed. This matching of interest rates results in our receiving a more constant net amount of cash from the securitized loans. In addition, the way that the SPE's security holders are paid their principal is based on collections of the principal on the sold loans from our borrowers. Therefore, we reduce the exposure to having prepayment of our loans causing us to have to reinvest in lower yielding short-term investments since the prepaid principal must be used to pay down the obligation to the SPE's security holder(s). Just as is the case with our other loans, to the extent the principal balance of a loan is written-off, it will have a negative impact on our cash flow and our operating income. As a result of our securitization in December 2000, our weighted average loans receivable during the six months ended June 30, 2001 was significantly less than the comparable period of 2000. Since the cash flow from these sold loans in future periods will have an impact on our profitability, we provide information on both our loan portfolio retained (the "Retained Portfolio") and combined with the loans securitized and sold (the "Aggregate Portfolio") throughout this Form 10-Q.

As a REIT, we must distribute at least 90% of our REIT taxable income to shareholders. Our investments are managed pursuant to investment management agreements with PMC Advisers, Ltd. and its subsidiary (together, "PMC Advisers" or the "Investment Manager"), indirect wholly-owned subsidiaries of PMC Capital. We operate from the headquarters of the Investment Manager in Dallas, Texas, and through its loan production offices in Georgia, Arizona, New Jersey and Missouri.

Lending Activities

We are primarily a commercial lender that originates loans to small business enterprises that are principally collateralized by first liens on the real estate of the related business. The Investment Manager receives loan referrals from PMC Capital, which solicits loan applications on our behalf from borrowers, through personal contacts, internet referrals, attendance at trade shows, meetings and correspondence with local chambers of commerce, direct mailings, advertisements in trade publications and other marketing methods. We are responsible for compensation to PMC Capital for loan referrals as part of our IMA. In addition, the Investment Manager has generated a significant percentage of loans through referrals from lawyers, accountants, real estate and loan brokers and existing borrowers. In some instances, we may make payments to non-affiliated individuals who assist in generating loan applications, with such payments generally not exceeding 1% of the principal amount of the loan.

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Our lending operations consist primarily of making loans to borrowers who operate in the lodging industry. During the six months ended June 30, 2001 and 2000, we originated and funded $32.3 million and $4.2 million, respectively. During the years ended December 31, 2000, and 1999, we originated and funded $22.5 million and $17.5 million of loans. Since January 2000, our loan originations have increased as a result of an increased availability of funds from our revolving credit facility and a decrease in competition from conduit lending programs. Our loan origination volume during the second quarter of 2001 was $22.6 million, which was our highest quarterly loan volume since our inception. However, we have recently seen a reduction in our lending activity. See "Economy and Competition."

As of June 30, 2001, our Retained Portfolio outstanding was $63.2 million ($62.2 million after reductions for deferred commitment fees and loan loss reserves). The Retained Portfolio does not include the $84.8 million aggregate principal balance remaining on the loans securitized during December 2000 and June 2001 (the "Securitized Loans"). Included in the Retained Portfolio are approximately $18.6 million of loans which are fully funded and not encumbered by our structured financing transactions and to the extent they meet the criteria for a securitization could be part of a securitization in the future. The Aggregate Portfolio outstanding was $148.0 million at June 30, 2001. At June 30, 2001, the weighted average contractual interest rate of our Retained Portfolio and our Aggregate Portfolio was approximately 10.1% and 9.9%, respectively. The weighted average contractual interest rate does not include the effects of the accretion of commitment fees on funded loans or prepayment fees earned. The annualized average yields on our Retained Portfolio includes all loan fees and prepayment fees earned and is reduced by the provision established for loan losses. For the six months ended June 30, 2001 and 2000 the annualized average yields on our Retained Portfolio were approximately 10.7% and 9.8%, respectively. For the years ended December 31, 2000, 1999 and 1998 the annualized average yields on our Retained Portfolio were approximately 10.8%, 11.8% and 13.1%, respectively.

As of June 30, 2001, we had two loans which were greater than 31 days delinquent. We have established a reserve in the amount of $300,000 against those loans that we have determined to be potential "problem loans." The aggregate principal balance outstanding of our "problem loans" at June 30, 2001 was approximately $1.4 million. In the event any loans are required to be liquidated, management estimates the collateral will equal or exceed the principal balance outstanding less the related reserve.

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Property Ownership

The following table shows summarized financial information for the lessee of our properties (Arlington) which has been derived from the Arlington Hospitality, Inc. public filings as of June 30, 2001 and December 31, 2000 and for the three and six months ended June 30, 2001 and 2000, as follows:

	June 30, 2001	December 31, 2000
	(In thousands)	
BALANCE SHEET DATA:		
Investment in hotel assets	$ 87,595	$ 84,835
Cash and short term investments	2,273	1,729
Total assets	102,080	98,143
Total liabilities	84,151	79,877
Shareholders' equity	17,929	18,266

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands)			
INCOME STATEMENT DATA:				
Total revenue	$ 36,423	$ 37,672	$ 16,963	$ 21,805
Operating income	1,347	1,860	1,379	2,511
Net income (loss)	(468)	302	153	1,206

Arlington Hospitality, Inc. is a public entity that files periodic reports with the SEC. Additional information about Arlington can be obtained from the SEC's website at http://www.sec.gov.

The following tables show statistical data regarding our 26 remaining Hotel Properties (1):

	Six Months Ended June 30,			Three Months Ended June 30,		
	2001	2000	% Increase (Decrease)	2001	2000	% Increase (Decrease)
Occupancy	54.83%	57.98%	(5.4%)	59.68%	63.91%	(6.6%)
ADR (2)	$ 57.24	$ 55.13	3.8%	$ 58.31	$ 55.30	5.4%
RevPAR (3)	$ 31.39	$ 31.97	(1.8%)	$ 34.80	$ 35.34	(1.5%)
Revenue	$8,657,976	$8,871,642	(2.4%)	$4,826,061	$4,904,175	(1.6%)
Rooms Rented	151,248	160,925	(6.0%)	82,764	88,689	(6.7%)
Rooms Available	275,843	277,551	(0.6%)	138,684	138,774	(0.1%)

(1) Arlington has provided all data.
(2) "ADR" is defined as the average daily room rate.
(3) "RevPAR" is defined as room revenue per available room and is determined by dividing room revenue by available rooms for the applicable period.

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Economy and Competition

Our primary competition comes from banks, financial institutions and other lending companies. Some of these competitors have greater financial and larger managerial resources than us and are able to provide services we are not able to provide (*i.e.* depository services). In our opinion, during 1999 and 2000 competitive lending activity was at advance rates and interest rates that were considerably more aggressive than ours. In order to maintain a quality portfolio, we continued to adhere to our historical underwriting criteria, and as a result, certain loan origination opportunities were not funded by us. During 2001, as the interest rate environment changed and the prime rate was reduced from 9.5% to 6.75%, the increased competition that we had previously faced from banks has moderated.

We believe we compete effectively with such entities on the basis of the variety of our lending programs offered, the interest rates, our long-term maturities and payment schedules, the quality of our service, our reputation as a lender and the timely credit analysis and decision-making processes.

Since the beginning of 2001, we have experienced an increase in loan origination opportunities due to the reductions in prime rate and competition lessening from banks. Based on this increased activity, our volume of new loans funded in the first six months of 2001 ($32.3 million) exceeded fundings during the year ended December 31, 2000. As a result of several factors, the number and dollar volume of our loans funded peaked in the second quarter with reduced levels expected throughout the remainder of the year. The average non-construction deal takes approximately 90 to 120 days to fund from the time of the initial commitment. Therefore, the volume in any quarter is usually determined in the prior two to three months. The major factors for this increased lending activity leading into 2001 included: a drop in rates with 10 year treasuries dropping from just under 6% at the end of September 2000 to just over 5% at the beginning of the year; the curtailment/reduction in lending by banks and other lenders during the first quarter of 2001 as their credit quality was impacted by downturns in other sectors; PMC Capital forming a strategic alliance with a major franchiser at the beginning of the year; and, PMC Capital expanding their incentive programs effective for the first half of the year. This surge in commitment activity in the first quarter of 2001 led to the increased volume levels in the second quarter.

As we look to the third and fourth quarter we are already aware of the economic downturn settling in with reductions in business travel, and consumers rethinking vacations causing a moderation in demand and a resulting slowdown in construction. Although the limited service area continues to outperform the luxury and upscale sectors, with the high-end resorts taking the hardest hit, the outlook for the balance of 2001 and into next year is for reduced activity. As indicated in published sources, several experts have reduced their outlook for the limited service hospitality industry with revenue per available room (“RevPAR”) decreasing during the second quarter of 2001. In addition, RevPAR is expected to fall for the year ending December 31, 2001 and, the rise in RevPAR for 2002 is expected to be significantly below recent double digit rises.

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Commitments

Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. At June 30, 2001, we had approximately $29.4 million of total loan commitments and approvals outstanding to 17 small business concerns predominantly in the lodging industry. Of the total loan commitments and approvals outstanding at June 30, 2001, we had approximately $7.3 million of loan commitments outstanding pertaining to seven partially funded construction loans and $2.3 million of commitments under the SBA 504 takeout program. Approximately $12.7 million of these commitments are for variable-rate loans based on LIBOR. The spreads over LIBOR range from 3.75% to 4.25%. Including the variable-rate commitments, the weighted average interest rate on loan commitments at June 30, 2001 was approximately 8.8%. 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. Commitments generally have fixed expiration dates and require payment of a fee. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Pursuant to the IMA, if we do not have funds available for our commitments, such commitments will be referred back to PMC Advisers.

Fluctuations In Quarterly Results

Our quarterly operating results will fluctuate based on a number of factors, including, among others:

- the completion of a securitization transaction in a particular calendar quarter,
- gains on property sales,
- the interest rates on the securities issued in connection with our securitization transactions,
- the volume of loans we originate and the timing of prepayment of our loans,
- changes in and the timing of the recognition of gains or losses on investments,
- the degree to which we encounter competition in our markets, and
- general economic conditions.

To the extent a securitization is completed, (i) our interest income on loans in future periods will be reduced until the proceeds received are reinvested in new loan originations, (ii) interest expense will be reduced if we pay off outstanding debt with the proceeds and (iii) we will earn income from our ownership of a retained interest in the loans sold. Until the proceeds are fully reinvested, the net impact on future operating periods should be a reduction in interest income net of interest expense.

As a result of the above factors, results for any quarter should not be relied upon as being indicative of performance in future quarters.

Certain Accounting Considerations

We have transferred assets to SPE’s in connection with securitizations and structured

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financings in order to obtain working capital to originate new loans. The transfer of assets that qualifies for sale treatment under SFAS No. 140 ("Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities") is generally accounted for by the seller by: (i) derecognizing all assets sold, (ii) recognizing all assets obtained and liabilities incurred at their relative fair value, and (iii) recognizing all assets retained at their allocated previous carrying amount based on relative fair values. We typically receive cash and retain the right to receive contractual servicing fees and the right to receive future interest income on loans transferred that exceed the contractually specified servicing fee. The difference between (i) the carrying value of the portion of loans sold and (ii) the sum of (a) cash received, (b) servicing rights, if any, and (c) the interest-only strip receivable retained, constitutes the gain on sale.

As of the date a securitization is completed, the value of the retained interest in the transferred loans is established based upon the initial estimate of the anticipated discounted future cash flows retained by us. The assets that comprise our retained interest in transferred assets (the "Retained Interests") are the restricted cash, an investment in the subordinated portion of the sold receivables and the interest-only strip receivable. Management's assumptions include estimates of prepayment speeds, default rates, future loan losses and discount rates. The discount rate is management's estimate of a market rate based on interest rate levels at the time of completion of the transaction considering the risks inherent in the transaction. There can be no assurance of the accuracy of these estimates. If the prepayment speeds occur at a faster rate than anticipated or future loan losses occur quicker than expected or in amounts greater than expected, the value of the Retained Interests will decline. If prepayments occur slower than anticipated or future loan losses are less than expected, cash flows would exceed estimated amounts and total income in future periods would be enhanced.

On a quarterly basis, we measure the fair value of and record income relating to the Retained Interests based upon the future anticipated cash flows discounted to reflect the current market interest rates for investments of this type. Any appreciation (depreciation) of the Retained Interests is either recorded as an unrealized gain or loss and included as a component of beneficiaries' equity or recorded as a realized loss and reflected in the consolidated statement of income.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000

Our net income during the six months ended June 30, 2001 and 2000 was $6,657,000 and $3,992,000, or $1.04 and $0.61 per share, respectively ($1.03 and $0.61 per share on a fully diluted basis). The increase of $2,665,000 was primarily the result of (i) an increase in our gain on sale of assets, (ii) increased lending activity that commenced during the first quarter of 2001 and (iii) a reduction in expenses relating to the provision for loan losses being $400,000 less.

Due primarily to the effects of the selling a portion of our loan portfolio in our December 2000 securitization, our total revenues and our interest expense decreased. Our revenues decreased by approximately $1,219,000 (12%), to $8,828,000 during the six months ended June

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30, 2001 from $10,047,000 during the six months ended June 30, 2000 due to our smaller loan portfolio. Our expenses decreased by $1,931,000 (30%), to $4,428,000 during the six months ended June 30, 2001 from $6,359,000 during the six months ended June 30, 2000 due to the repayment of outstanding borrowings under our credit facility from the proceeds of our loan sale. Accordingly, our income before gain on sale of assets increased by $712,000 (19%), to $4,400,000 during the six months ended June 30, 2001 from $3,688,000 during the six months ended June 30, 2000. Revenues do not include $2,257,000 of gains recorded from selling our loans in a securitization and selling three hotel properties during the six months ended June 30, 2001 or $304,000 from selling one hotel property during the six months ended June 30, 2000.

Interest income – loans decreased by $1,664,000 (29%), to $4,023,000 during the six months ended June 30, 2001 from $5,687,000 during the six months ended June 30, 2000. Interest income-loans represents interest earned on our outstanding loan portfolio and the accretion of deferred commitment fees. This decrease in interest income-loans was primarily attributable to the sale of approximately $56 million of loan portfolio in our December 2000 securitization. As a result, our weighted average outstanding retained loan portfolio decreased by $33.1 million (30%), to $77.4 million during the six months ended June 30, 2001 from $110.5 million during the six months ended June 30, 2000. Our weighted average contractual interest rate on our Retained Portfolio was approximately 10.1% and 10.0 % at June 30, 2001 and 2000, respectively. As a result of the sale of loans in our June 2001 securitization, interest income — loans (and interest expense) is expected to be less in 2001 until our Retained Portfolio outstanding increases from investing the proceeds from the sale.

Lease income decreased by $151,000 (4%), to $3,703,000 during the six months ended June 30, 2001 from $3,854,000 during the six months ended June 30, 2000. Lease income decreased primarily due to the sale of Hotel Properties, which decrease was partially offset by the increased percentage rent from 2% to 4% effective January 2001 on our Hotel Property portfolio. Lease income from the base rent will continue to decrease as we sell properties. After giving effect to the sale of the Hotel Properties, our annual base rent is presently $6,320,000 compared to $7,300,000 prior to the property sales.

Interest and dividends – other investments decreased by $47,000 (35%), to $87,000 during the six months ended June 30, 2001 from $134,000 during the six months ended June 30, 2000. This decrease was primarily caused by a decline in our average outstanding short-term investments of $1.1 million (21%), to $4.1 million during the six months ended June 30, 2001 from $5.2 million during the six months ended June 30, 2000 as a result of the continued reduction of our restricted investments. In addition, this decrease was a result of decreased average yields. The average yields on short-term investments during the six months ended June 30, 2001 decreased to 4.2% from 5.2% during the six months ended June 30, 2000.

Income from retained interest in transferred assets was $721,000 during the six months ended June 30, 2001. During the six months ended June 30, 2001 we recognized profit from our Retained Interests. Prior to that time we did not own any Retained Interests.

Other income decreased by $78,000 (21%), to $294,000 during the six months ended June 30, 2001 from $372,000 during the six months ended June 30, 2000. Other income consists

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of: (i) prepayment fees, (ii) amortization of construction monitoring fees, (iii) late fees and other loan fees, and (iv) miscellaneous collections. The decrease was principally attributable to lower prepayment fees and assumption fees which decreased by $78,000 (34%), to $152,000 during the six months ended June 30, 2001 from $230,000 during the six months ended June 30, 2000. Since prepayments of fixed rate loans are more likely to occur in a low interest rate environment, management believes prepayment fees may increase during the remainder of 2001 as a result of the reduction in prime rate.

Interest expense decreased by $1,269,000 (37%), to $2,164,000 during the six months ended June 30, 2001 from $3,433,000 during the six months ended June 30, 2000. The decrease was primarily attributable to the pay down of approximately $43 million in December 2000 of the outstanding balance on our revolving credit facility.

Interest expense consisted of:

	Six Months Ended June 30,	
	2001	**2000**
	(In thousands)	
Revolving credit facility	$ 291	$ 1,301
Structured notes	1,165	1,375
Mortgages on Hotel Properties	584	638
Other	124	119
	$ 2,164	$ 3,433

Depreciation expense decreased by $100,000 (9%), to $1,048,000 during the six months ended June 30, 2001 from $1,148,000 during the six months ended June 30, 2000. This decrease is primarily attributable to the sale of Hotel Properties.

Advisory and servicing fees to affiliate, net decreased by $217,000 (21%), to $821,000 during the six months ended June 30, 2001 from $1,038,000 during the six months ended June 30, 2000.

Pursuant to the IMA, we are currently charged fees between 0.40% and 1.55% annually (the “Investment Management Fees”) based upon the average principal outstanding of our loans. Prior to July 1, 2000, the maximum fee was 1.67% annually. While PMC Advisers bears substantially all of the costs associated with our operations, we pay certain expenses, including direct transaction costs incident to the acquisition and disposition of investments, legal and auditing fees and expenses, the fees and expenses of our trust managers who are not officers, the costs of printing and mailing proxies and reports to shareholders and the fees and expenses of our custodian and transfer agent. We, rather than PMC Advisers, are also required to pay expenses associated with any litigation and other extraordinary or non-recurring expenses.

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In addition, we are required to pay an annual fee to PMC Advisers (the “Lease Supervision Fee”) of 0.70% of the original remaining cost of the Hotel Properties ($63.2 million and $70.1 million as of June 30, 2001 and 2000, respectively). As of June 30, 2001, the Lease Supervision Fee was $442,400 per annum. Advisory and servicing fees consited of:

	Six Months Ended June 30,	
	2001	**2000**
	(In thousands)	
Lease Supervision Fee	$ 232	$ 247
Investment Management Fee	785	836
Total fees incurred	1,017	1,083
Less:		
Cost of structured financing	(60)	—

Fees capitalized as cost of originating loans	(136)	(45)
Advisory and servicing fees to affiliate, net	$ 821	$1,038

The reduction in fees was primarily a result of reduced loans and Hotel Properties under management, the reduction in the rate charged pursuant to the IMA effective July 1, 2000 and the increase in fees capitalized as a cost of originating loans due to an increase in lending activity during 2001.

General and administrative expenses increased by $57,000 (64%), to $146,000 during the six months ended June 30, 2001 from $89,000 during the six months ended June 30, 2000. The general and administrative expenses remained at low levels since the majority of the expenses were incurred by PMC Advisers pursuant to the IMAs. The increase was primarily due to fees incurred for banking activities that were expensed during the six months ended June 30, 2001. There were no comparable fees during the six months ended June 30, 2000.

Legal and accounting fees decreased by $2,000 (4%), to $49,000 during the six months ended June 30, 2001 from $51,000 during the six months ended June 30, 2000. Legal and accounting fees remained at low levels and were stable during these periods.

Provision for loan losses was $200,000 and $600,000 for the six months ended June 30, 2001 and 2000, respectively. These loan loss provisions were established based on the determination, through an evaluation of the recoverability of individual loans, by our Board that significant doubt exists as to the ultimate realization of a specific loan. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgment and a consideration of the facts and circumstances existing at the evaluation date. The increase in the reserves established during the six months ended June 30, 2001 of $200,000 was related to two loans that we have identified as potential problem loans. At June 30, 2000, we were in the process of liquidating the collateral on a loan and on August 1, 2000 we foreclosed on the collateral underlying the loan. During the liquidation process, we identified that the collateral was impaired as a result of the general condition of the building. Based on an updated appraisal and the available information on the condition of our collateral at that time, we recorded a $700,000 loss relating to the property, $600,000 of which was reflected during the six months ended June 30, 2000. We were not in the process of liquidating any loans as of June 30, 2001.

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Gain on sale of assets increased by $1,953,000 (642%), to $2,257,000 during the six months ended June 30, 2001 from $304,000 during the six months ended June 30, 2000. The primary reason for the increase was the recognition of $1,433,000 in gain relating to the sale of $32.7 million of loans during June 2001. There were no comparable transactions during the six months ended June 30, 2000. In addition, during the six months ended June 30, 2001 we sold three of our Hotel Properties for net cash proceeds of $7.2 million resulting in a gain of $824,000. During the six months ended June 30, 2000 we sold one of our Hotel Properties for net cash proceeds of $3.2 million resulting in a gain of $304,000.

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

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000

Our net income during the three months ended June 30, 2001 and 2000 was $3,849,000 and $1,784,000, or $0.60 and $0.27 per share (basic and fully diluted), respectively. The increase of $2,065,000 was primarily the result of (i) an increase in our gain on sale of assets of $1,433,000, (ii) increased lending activity that commenced during the first quarter of 2001 and (iii) a reduction in expenses relating to the provision for loan losses being $400,000 less.

Due primarily to the effects of selling a portion of our loan portfolio in our December 2000 securitization, our total revenues and our interest expense decreased. Our revenues decreased by approximately $350,000 (7%), to $4,486,000 during the three months ended June 30, 2001 from $4,836,000 during the three months ended June 30, 2000 due to our smaller loan portfolio. Our expenses decreased by $963,000 (29%), to $2,393,000 during the three months ended June 30, 2001 from $3,356,000 during the three months ended June 30, 2000 due to (i) the repayment of outstanding borrowings under our credit facility from the proceeds of our loan sale and (ii) the provision for loan losses of $500,000 during the three months ended June 30, 2000 compared to $150,000 for the three months ended June 30, 2001. Accordingly, our income before gain on sale of assets increased by $613,000 (41%) to $2,093,000 during the three months ended June 30, 2001 from $1,480,000 during the three months ended June 30, 2000.

Interest income — loans decreased by $523,000 (19%), to $2,234,000 during the three months ended June 30, 2001 from $2,757,000 during the three months ended June 30, 2000. Interest income-loans represents interest earned on our outstanding loan portfolio and the accretion of deferred commitment fees. This decrease in interest income-loans was primarily attributable to the sale of approximately $56 million of loan portfolio in our December 2000 securitization. As a result, our weighted average outstanding Retained Portfolio decreased by $23.3 million (22%), to $84.8 million during the three months ended June 30, 2001 from $108.1 million during the three months ended June 30, 2000. Our weighted average contractual interest rate on our Retained Portfolio was approximately 10.1% and 10.0 % at June 30, 2001 and 2000, respectively. As a result of the sale of loans in our June 2001 securitization, interest income — loans (and interest expense) is expected to be less in 2001 until our Retained Portfolio outstanding increases from investing the remaining proceeds from the sale.

Lease income decreased by $88,000 (5%), to $1,843,000 during the three months ended June 30, 2001 from $1,931,000 during the three months ended June 30, 2000. Lease income decreased primarily due to the sale of Hotel Properties, which decrease was partially offset by the increased percentage rent from 2% to 4% effective January 2001 on our Hotel Property portfolio. Lease income from the base rent will continue to decrease as we sell properties. After giving effect to the sale of the Hotel Properties, our annualized base rent is presently $6,320,000 compared to $7,300,000 prior to the property sales.

Interest and dividends – other investments decreased by $36,000 (51%), to $35,000 during the three months ended June 30, 2001 from $71,000 during the three months ended June 30, 2000. This decrease was primarily caused by a decline in our average outstanding short-term investments of $1.3 million (25%), to $3.9 million during the three months ended June 30, 2001 from $5.2 million during the three months ended June 30, 2000. This decrease was also attributable to the decreased average yields. The average yields on short-term investments during the three months ended June 30, 2001 decreased 1.7% (31%) to 3.7% from 5.4% during the three months ended June 30, 2000.

Income from retained interest in transferred assets was $294,000 during the three months ended June 30, 2001. During the three months ended June 30, 2001 we recognized profit from our Retained Interests. Prior to that time we did not own any Retained Interests.

Other income increased by $3,000 (4%), to $80,000 during the three months ended June 30, 2001 from $77,000 during the three months ended June 30, 2000. Other income consists of: (i) prepayment fees, (ii) amortization of construction monitoring fees, (iii) late fees and other loan fees, and (iv) miscellaneous collections.

Interest expense decreased by $496,000 (29%), to $1,191,000 during the three months ended June 30, 2001 from $1,687,000 during the three months ended June 30, 2000. The decrease was primarily attributable to the pay down in December 2000 of the outstanding balance on our revolving credit facility of approximately $43 million. As a result, interest on our revolving credit facility decreased by $384,000 (58%), to $273,000 during the three months ended June 30, 2001 from $657,000 during the three months ended June 30, 2000.

Interest expense consisted of:

	Three Months Ended June 30,	
	2001	2000
	(In thousands)	
Revolving credit facility	$ 273	$ 657
Structured notes	571	657
Mortgages on Hotel Properties	292	335
Other	55	38
	$1,191	$1,687

Depreciation expense decreased by $44,000 (8%), to $530,000 during the three months ended June 30, 2001 from $574,000 during the three months ended June 30, 2000. This decrease is primarily attributable to the sale of Hotel Properties.

Advisory and servicing fees to affiliate, net decreased by $111,000 (23%), to $378,000 during the three months ended June 30, 2001 from $489,000 during the three months ended June 30, 2000. Advisory and servicing fees consisted of:

	Three Months Ended June 30,	
	2001	2000
	(In thousands)	
Lease Supervision Fee	$ 112	$119
Investment Management Fee	426	415
Total fees incurred	538	534
Less:		
Cost of structured financing	(60)	—
Fees capitalized as cost of originating loans	(100)	(45)
Advisory and servicing fees to affiliate, net	$ 378	$489

The reduction in fees was primarily a result of reduced loans and Hotel Properties under management, the reduction in the rate charged pursuant to the IMA effective July 1, 2000 and the increase in fees capitalized as a cost of originating loans due to an increase in lending

activity during 2001.

General and administrative expenses increased by $70,000 (175%), to $110,000 during the three months ended June 30, 2001 from $40,000 during the three months ended June 30, 2000. The general and administrative expenses remained at low levels since the majority of the expenses were incurred by PMC Advisers pursuant to the IMAs. The increase was primarily due to fees incurred for banking activities that were expensed during the three months ended June 30, 2001. There were no comparable fees during the three months ended June 30, 2000.

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Legal and accounting fees increased by $18,000 (113%), to $34,000 during the three months ended June 30, 2001 from $16,000 during the three months ended June 30, 2000. Legal and accounting fees remained at low levels and stable during these periods.

Provision for loan losses was $150,000 and $550,000 for the three months ended June 30, 2001 and 2000, respectively. These loan loss provisions were established based on the determination, through an evaluation of the recoverability of individual loans, by our Board that significant doubt exists as to the ultimate realization of a specific loan. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgment and a consideration of the facts and circumstances existing at the evaluation date. The reserve established during the three months ended June 30, 2001 of $150,000 was related to two loans that we have identified as potential problem loans. At June 30, 2000, we were in the process of liquidating the collateral on a loan and on August 1, 2000 we foreclosed on the collateral underlying the loan. During the liquidation process, we identified that the collateral was impaired as a result of the general condition of the building. Based on an appraisal and available information on the condition of our collateral at that time, we recorded a $700,000 loss relating to the property, $550,000 of which was reflected during the second quarter of 2000. We were not in the process of liquidating any loans as of June 30, 2001.

Gain on sale of assets increased by $1,452,000 (477%), to $1,756,000 during the three months ended June 30, 2001 from $304,000 during the three months ended June 30, 2000. The primary reason for the increase was the recognition of $1,433,000 in gain relating to the sale of $32.7 million of loans during June 2001. There was no comparable transaction during the three months ended June 30, 2000. In addition, during the three months ended June 30, 2001 we sold one of our Hotel Properties for net cash proceeds of $2.6 million resulting in a gain of $322,000. During the three months ended June 30, 2000 we sold one of our Hotel Properties for net cash proceeds of $3.2 million resulting in a gain of $304,000.

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

Cash Flow Analysis

We generated $4,926,000 and $4,937,000 from operating activities during the six months ended June 30, 2001 and 2000, respectively. The primary source of funds from operating activities is our net income.

Our investing activities reflect a net use of funds of $21,726,000 and a net source of funds of $16,337,000 during the six months ended June 30, 2001 and 2000, respectively. The $38,063,000 reduction in cash flows relates primarily to an increase in the use of our funds of $28,103,000 for loans funded and (ii) a decrease in principal collected of $10,565,000.

Our financing activities reflect a net source of funds of $21,723,000 and a net use of funds of $21,071,000 during the six months ended June 30, 2001 and 2000, respectively. When comparing the six months ended June 30, 2001 to the six months ended June 30, 2000, the

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increase in cash flows of $42,794,000 was primarily due to; (i) the $29,529,000 in proceeds from our June 2001 securitization transaction, (ii) the $6,405,000 paid down on our revolving credit facility during the six months ended June 30, 2000 and (iii) a decrease in use of funds of $5,522,000 from principal payments on our notes payable resulting from a reduction in the payments required on the structured financing completed in 1998 due to less prepayments on the underlying notes held as collateral.

Liquidity and Capital Resources

The primary use of our funds is to originate loans. We also use 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.

As a REIT, we must distribute to our shareholders at least 90% of our REIT taxable income to maintain our tax status under the Internal Revenue Code. As a result, those earnings will not be available to fund future investments. In order to maintain and increase our investment portfolio, we have a continuing need for capital. We have historically met our capital needs through borrowings under our credit facility, structured sales/financings of our loan portfolio and the issuance of common shares.

At June 30, 2001, we had $5.4 million of cash and cash equivalents, availability of $45.0 million under our revolving credit facility and approximately $29.4 million of total loan commitments. See "Economy and Competition." Pursuant to our loan origination agreement with PMC Advisers and PMC Capital, if we do not have available capital to fund outstanding commitments, PMC Advisers will refer such commitments to our affiliates and we will receive no income from those outstanding commitments.

The Board has authorized a share repurchase program for up to 500,000 of our outstanding Common Shares. The shares may be bought from time to time in the open market or pursuant to negotiated transactions. As of June 30, 2001, we had acquired an aggregate of 131,450 shares under the share repurchase program for an aggregate purchase price of $1,268,000, including commissions.

Our primary use of funds is for the origination of loans. As a result of uncertain economic trends and overbuilding in certain regional markets, there has been a slowdown in the number of new hospitality properties being built or sold since 1999. Due to competition and the slowdown in construction of new limited service hospitality properties, our loan origination volume was only $22.5 million in 2000. From 1996 to 1998, our loan origination volume was approximately $42 million per year. The volume had dropped to $17.5 million in 1999 as a result of limited availability of funds related to our credit facility. However, during the first quarter of 2001, we saw an increase in loan origination opportunities due to the reductions in prime rate during the first quarter of 2001 and competition lessening from banks and other lenders. Our loans funded were $32.3 million during the six months ended June 30, 2001. Based on this increased activity, our volume of loans funded during the six months ended June 30, 2001 exceeded our fundings of $22.5 million during the year ended December 31, 2000. However, we anticipate that our loan volume for the remainder of 2001 will be less than the volume during the first six months of 2001. See "Economy and Competition."

We also receive funds from the principal paid on our Retained Portfolio. As a result of changes in the credit markets in 1999, including increases in interest rates and a reduction in competition from loan conduits, the pace of prepayment activity decreased commencing with the third quarter of 1999 through the end of 2000. We believe that as a result of the current interest rate environment (the prime rate has decreased by 2.75% to date during 2001), we may see prepayment activity at levels greater than the levels of prepayment activity experienced during 2000. Since we do not expect the competition to be as strong during this period of reduced interest rates, we do not expect that the prepayment activity will be as high as it was during 1997 and 1998.

In general, to meet our liquidity requirements, including expansion of our outstanding loan portfolio, we intend to use:

- issuance of debt securities including securitizations of loans or properties;
- our revolving credit facility as described below;
- borrowings collateralized by the properties;
- proceeds from sale of our Hotel Properties;
- placement of corporate long-term borrowings; and/or
- issuance of additional equity securities.

We believe that these financing sources will enable us to generate funds sufficient to meet both our short-term and long-term capital needs. Our ability to continue to grow however, will depend on our ability to borrow funds, sell assets and/or issue equity on acceptable terms. A reduction in the availability of these sources of funds could have a material adverse effect on our financial condition and operating results as occurred in 1999.

For our short term working capital needs, we have a $45 million revolving credit facility (the "Revolver") which provides funds to originate loans and, on a limited basis, to purchase commercial real estate. We have a maximum amount (the "Borrowing Base") that we can borrow that is based on our loans that are used as collateral for this facility. The Borrowing Base available on each loan is the greater of (a) 60% of the value of the project underlying the loan

collateralizing the borrowing or (b) 85% of the amount of the loan outstanding. We are charged interest on the balance outstanding under the Revolver at our election of either the prime rate of the lender or 162.5 basis points over the 30, 60 or 90 day LIBOR. The Revolver matures during November 2002.

We have sufficient capital to fund our currently outstanding commitments. To the extent our future commitments require additional working capital, or to the extent that our affiliate, PMC Capital, is securitizing a portion of their portfolio, we may securitize a portion of our portfolio. Due to the limited number of loans we are able to include in a loan securitization, we achieve more timely access to the securitization market, a more efficient cost of funds and lower retained interest in loans securitized when we complete a securitization through a joint venture transaction with PMC Capital.

With regard to our Hotel Properties, we continue to pursue mortgages on individual properties owned by us. As of June 30, 2001, we had six mortgages on our Hotel Properties for an aggregate remaining outstanding principal balance of $8.2 million at a weighted average interest rate of 7.66%. The related notes each had original terms of five years (except for one note), amortization periods of 20 years, and rates ranging from 7.44% to 8.00%. The remaining note's term is eight years, has no prepayment penalty and has an interest rate reset in four years.

We expect that the sources of funds described above should be adequate to meet our existing obligations. However, there can be no assurance that we will be able to raise funds through these financing sources. If these sources are not available, we will have to originate loans at reduced levels and we may have to refer commitments to PMC Advisers. In addition, since our loans primarily have fixed interest rates and we have short-term variable interest rate borrowings, we are subject to the interest rate risk that short-term variable rates will increase substantially. See "Quantitative and Qualitative Disclosures About Market Risk." In order to mitigate this interest rate risk, we may have to issue debt having decreased advance rates or increased interest rates and/or sell assets.

Funds From Operations and Dividends

Funds From Operations. We consider funds from operations ("FFO") to be an appropriate measure of performance for an equity or hybrid REIT that provides a relevant basis for comparison among REITs. FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), means income (loss) before minority interest (determined in accordance with GAAP), excluding gains (losses) from debt restructuring and sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented to assist investors in analyzing our performance. Our method of calculating FFO may be different from the methods used by other REITs and, accordingly, may be not be directly comparable to such other REITs. Our formulation of FFO set forth below is consistent with the NAREIT White Paper definition of FFO.

FFO (i) does not represent cash flows from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including distributions, and (iii) should not be considered as an alternative to net income (as determined in accordance with

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GAAP) for purposes of evaluating our operating performance. For a complete discussion of our cash flows from operations, see "Cash Flow Analysis."

Our FFO for the three and six months ended June 30, 2001 and 2000 was computed as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	2000	2001	2000
	(In thousands)			
Net income	$ 6,657	$ 3,992	$ 3,849	$ 1,784
Less gain on sale of assets	(2,257)	(304)	(1,756)	$ (304)
Add depreciation	1,048	1,148	530	574
FFO	$ 5,448	$ 4,836	$ 2,623	$ 2,054
Basic weighted average shares outstanding	6,421	6,537	6,434	6,537

Dividends. During both January and April 2001, we paid $0.365 per share in dividends to common shareholders of record on December 29, 2000 and March 30, 2001, respectively. We declared a $0.375 per share dividend to common shareholders of record on June 29, 2001, which was paid in July 2001.

Our Board has reviewed our dividend policy and considered many factors, including, but not limited to, expectations for future earnings and FFO, interest rate environment, competition, our ability to obtain leverage, our loan portfolio activity and general REIT stock performances. While our Board has historically paid dividends based primarily upon an expectation of available FFO, this policy has been modified and it is anticipated that our quarterly dividends per share will range between our expectation of annual earnings per share and FFO (on a per share basis). Consequently, the dividend rate on a quarterly basis will not necessarily correlate directly to quarterly FFO or earnings expectations.

To the extent excess FFO is retained and not paid out as quarterly dividends, these funds will be used to originate loans, to reduce debt or to possibly pay year-end extra dividends. See "Funds from Operations" above.

Risks Associated with Forward-Looking Statements Included in 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 identified in this Form 10-Q. Assumptions relating to the foregoing involve

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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 our control. Although we believe 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 us or any other person that our objectives and plans will be achieved.

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PART I
Financial Information

ITEM 3.
Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk associated with changes in interest rates since our balance sheet consists of items subject to interest rate risk.

A majority of our investment portfolio consists of fixed interest rate loans. Given that the loans are priced at a fixed rate of interest, changes in interest rates should not have a direct impact on interest income. Significant reductions in interest rates, however, can prompt increased prepayments of our loans, resulting in possible decreases in long-term revenues due to re-investment of the prepayment proceeds at lower interest rates.

We have an investment in Retained Interests which is valued by our Board based on various factors including estimates of appropriate market discount rates. Significant reductions (or increases) in the discount rates used by the Board in determining the valuation of the Retained Interests will have an impact on the value. If market rates, and consequently the discount rates used by the Board, were to increase by 1% or 2% from current rates, the value of our Retained Interests would diminish by $0.7 million and $1.4 million, respectively.

Our liabilities consist primarily of the structured notes payable of approximately $35.3 million at June 30, 2001 and debt related to our Hotel Properties of approximately $14.8 million. The structured notes payable and the debt related to our Hotel Properties are payable at fixed rates of interest, so changes in interest rates do not affect the related interest expense.

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PART II
Other Information

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

At the Company's Annual Meeting of Shareholders held on May 16, 2001, the following members were elected to the Board of Trust Managers:

Andrew S. Rosemore
Lance B. Rosemore
Nathan Cohen
Martha Greenberg
Roy H. Greenberg
Irving Munn
Ira Silver

The following proposal was approved at the Company's Annual Meeting:

	Affirmation Votes	Negative Votes	Abstentions and Broker Non-Votes
To ratify the appointment of PricewaterhouseCoopers LLP as the independent public accountants of the Company	5,930,696	12,438	74,552

ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits

10.1 Servicing Agreement by and among BNY Midwest Trust Company as Trustee and

	Supervisory Servicer, PMC Joint Venture, L.P. 2001, as Issuer, and PMC Capital, Inc. and PMC Commercial Trust, as Servicers.
10.2	Trust Indenture by and among BNY Midwest Trust Company as Trustee and PMC Joint Venture, L.P. 2001, as Issuer.

B. Form 8-K

None

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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: 8/14/01

/s/ Lance B. Rosemore

Lance B. Rosemore
President

Date: 8/14/01

/s/ Barry N. Berlin

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

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10.1	Servicing Agreement by and among BNY Midwest Trust Company as Trustee and Supervisory Servicer, PMC Joint Venture, L.P. 2001, as Issuer, and PMC Capital, Inc. and PMC Commercial Trust, as Servicers.
10.2	Trust Indenture by and among BNY Midwest Trust Company as Trustee and PMC Joint Venture, L.P. 2001, as Issuer.

EXHIBIT 10.1

SERVICING AGREEMENT

BY AND AMONG

BNY MIDWEST TRUST COMPANY,
AS TRUSTEE AND SUPERVISORY SERVICER

PMC JOINT VENTURE, L.P. 2001,
AS ISSUER

AND

PMC CAPITAL, INC.
AND
PMC COMMERCIAL TRUST,
AS SERVICERS

DATED AS OF JUNE 26, 2001

$75,378,920
PMC JOINT VENTURE, L.P. 2001
LOAN-BACKED FIXED RATE NOTES

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SERVICING AGREEMENT

This Servicing Agreement (this "Agreement"), dated as of June 26, 2001 is made and entered into by and among BNY MIDWEST TRUST COMPANY, as trustee (the "Trustee"), and as Supervisory Servicer (the "Supervisory Servicer"), PMC JOINT VENTURE, L.P. 2001, a Delaware limited partnership, as issuer (the "Issuer"), and PMC CAPITAL, INC., a Florida corporation ("PMC") and PMC COMMERCIAL TRUST, a Texas real estate investment trust ("PMCT"), as servicers (PMC and PMCT are hereinafter collectively referred to as the "Servicers").

PRELIMINARY STATEMENT

The Issuer is the owner of the Loans and the other property being pledged, assigned and conveyed by it to the Trustee for inclusion in the Trust Estate pledged to secure the Notes issued pursuant to the Indenture. The Servicers are in the business, among other things, of servicing mortgage loans. The Issuer hereby appoints each Servicer to service the Loans that were transferred by such Servicer to the Issuer and are included in the Trust Estate, and each Servicer hereby accepts such appointment. The Supervisory Servicer is responsible for providing supervisory and monitoring duties with respect to certain obligations of the Servicers.

All covenants and agreements made by the Issuer, the Servicers, the Supervisory Servicer and the Trustee herein are for the benefit of the Holders from time to time of the Notes, the Trustee and the Supervisory Servicer. The Issuer, the Trustee, the Supervisory Servicer and the Servicers are entering into this Agreement for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged.

In consideration of the mutual agreements herein contained, the Issuer, the Servicers, the Supervisory Servicer and the Trustee hereby agree as follows:

ARTICLE 1
DEFINITIONS

All capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Schedule 1 attached hereto. Unless otherwise provided, all calculations of interest pursuant to this Agreement are based on a 360-day year of twelve 30-day months.

ARTICLE 2
REPRESENTATIONS, WARRANTIES AND COVENANTS

SECTION 2.1 REPRESENTATIONS AND WARRANTIES OF SERVICER. Each Servicer hereby represents and warrants on behalf of itself to the Trustee for the benefit of the Noteholders, the Supervisory Servicer and the Issuer as of the Closing Date, and at all times during the term of this Agreement shall be deemed to represent and warrant on behalf of itself, that:

(a) Such Servicer has been duly formed and is validly existing under the laws of the jurisdiction of its formation and is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the failure to be so qualified would have a material adverse effect on the enforceability of, or its ability to service, a Loan and no demand for such qualification has been made upon such Servicer by any state, and, in any event such Servicer is or will be in compliance with the laws of any such state to the extent necessary to insure the enforceability of each Loan and the servicing of the Loans in accordance with the terms of this Agreement;

(b) Such Servicer holds all licenses, certificates and permits from all governmental authorities necessary for the conduct of its business (except where the failure to obtain same would not materially and adversely affect such Servicer's ability to perform its obligations hereunder in accordance with the terms of this Agreement) and has received no notice of proceedings relating to the revocation of any such license, certificate or permit which singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially and adversely affect the conduct of the business, results of operations, net worth or condition (financial or otherwise) of such Servicer;

(c) Such Servicer has the full power and authority to execute, deliver and perform, and to enter into and consummate all transactions contemplated by this Agreement, has duly authorized the execution, delivery and performance of this Agreement, has duly executed and delivered this Agreement and this Agreement constitutes a legal, valid and binding obligation of such Servicer, enforceable against it in accordance with its terms, except as such enforcement may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights in general and (ii) by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(d) Neither the execution and delivery by such Servicer of this Agreement, the consummation by such Servicer of the transactions contemplated hereby, nor the fulfillment of or compliance by such Servicer with the terms and conditions of this Agreement will conflict with or result in a breach of any of the terms, conditions or provisions of such Servicer's organizational documents or bylaws or any legal restriction or any material agreement or instrument to which such Servicer is now a party or by which it is bound, or constitute a default or result in an acceleration under any of the foregoing, or result in the violation of any law, rule, regulation, order, judgment or decree to which such Servicer or its property is subject;

(e) At the date hereof, such Servicer does not believe, nor does it have any reason or cause to believe, that it cannot perform each of its covenants contained in this Agreement;

(f) There is no litigation pending or, to such Servicer's knowledge, threatened, which, if determined adversely to such Servicer, would materially and adversely affect the execution, delivery or enforceability of this Agreement, or the ability of such Servicer to service the Loans hereunder in accordance with the terms hereof or which would have a material adverse effect on the business, assets, results of operations or condition (financial or otherwise) of such Servicer;

(g) No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by such Servicer of or compliance

by such Servicer with this Agreement or the consummation by such Servicer of the transactions contemplated by this Agreement or if any such consent, approval, authorization or order is required, such Servicer has obtained or will obtain it prior to the time necessary for such Servicer to perform its obligations hereunder;

(h) Neither this Agreement nor any statement, report or other document furnished or to be furnished pursuant to this Agreement or in connection with the transactions contemplated hereby contains any untrue statement of material fact or omits to state a material fact necessary to make the statements relating to such Servicer contained therein not misleading; and

(i) Such Servicer is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or governmental agency, which default might have consequences that would materially and adversely affect the business, assets, results of operations, or condition (financial or otherwise) of such Servicer or its properties or might have consequences that would materially and adversely affect its performance hereunder.

Upon discovery by the Issuer, the applicable Servicer, the Supervisory Servicer or the Trustee of a material breach of any of the foregoing representations and warranties, the party discovering such breach shall give prompt written notice to the other parties, with a copy to the Noteholders and the Rating Agency. Within 30 days of its discovery or its receipt of notice of any such breach of a representation or warranty, the applicable Servicer shall cure such breach in all material respects; provided that, if such failure shall be of a nature that it cannot be cured within 30 days, the applicable Servicer shall give written notice to the Supervisory Servicer and the Trustee, with a copy to the Noteholders and the Rating Agency, within such 30 day period of the corrective action it proposes to take and shall thereafter pursue such corrective action diligently until such default is cured but in no event longer than 90 days from the date of such notice.

SECTION 2.2 COVENANTS OF SERVICERS. Each Servicer hereby agrees with respect to itself that during the term of this Agreement:

(a) Compliance with Agreements and Applicable Laws. Such Servicer shall perform each of its obligations under this Agreement and comply with all material requirements of any law, rule or regulation applicable to it and the terms of the Loans and any related agreements.

(b) Existence. Such Servicer shall maintain its existence and shall at all times continue to be duly organized under the laws of the state of its organization and duly qualified and duly authorized (as described in Sections 2.1(a), (b) and (c) hereof) and shall conduct its business in accordance with the terms of its organizational documents and bylaws.

(c) Financial Statements; Accountants' Reports; Other Information. Such Servicer shall keep or cause to be kept in reasonable detail books and records of account of such Servicer's assets and business, including, but not limited to, books and records relating to the sale of the Loans sold by such Servicer to the Issuer and the servicing of such Loans by such Servicer, which books and records shall be furnished to the Trustee upon reasonable request.

(d) Access to Records; Discussions with Officers and Accountants. Such Servicer shall, upon the reasonable request of the Supervisory Servicer, the Trustee or any Noteholder, permit the Supervisory Servicer, the Trustee or any such Noteholder or any of their authorized designees:

(i) to inspect the books and records of such Servicer as they may relate to the Loans and the obligations of such Servicer under this Agreement; and

(ii) to discuss the affairs, finances and accounts of such Servicer relating to the Loans and the obligations of such Servicer under this Agreement with any Authorized Officer of such Servicer.

Such inspections and discussions shall be conducted during normal business hours and shall not unreasonably disrupt the business of such Servicer. Such inspections shall be at the expense of the party performing or requesting such inspection unless a Servicer Default shall have occurred and be continuing, in which case any such inspection shall be at the expense of such Servicer. The books and records of such Servicer will be maintained in the United States at the address of such Servicer designated herein for receipt of notices, unless such Servicer shall otherwise advise the Supervisory Servicer, the Trustee and the Noteholders in writing not less than fifteen (15) Business Days prior to any such change of address.

(e) Notice of Material Events. Such Servicer shall promptly and in any event, within five (5) days of the occurrence thereof, inform the Supervisory Servicer, the Trustee, the Noteholders and the Rating Agency in writing of the occurrence of any of the following:

(i) the submission of any claim or the initiation of any legal process, litigation or administrative or judicial investigation against such Servicer involving potential damages or penalties in excess of $1,000,000 in any one instance or $5,000,000 in the aggregate;

(ii) any change in the location of such Servicer's principal office or any change in the location of such Servicer's books and records;

(iii) the occurrence of any Servicer Default;

(iv) the commencement of any proceedings instituted by or against such Servicer in any federal, state or local court or before any governmental body or agency, or before any arbitration board, or the promulgation of any proceeding or any proposed or final rule which, if adversely determined, would result in a material adverse change in the financial condition or operations of such Servicer;

(v) the commencement of any proceedings by or against such Servicer under any applicable bankruptcy, reorganization, liquidation, rehabilitation, insolvency or other similar law now or hereafter in effect or of any proceeding in which a receiver, liquidator, conservator, trustee or similar official shall have been, or may be, appointed or requested for such Servicer or any of its assets;

(vi) the receipt of notice that (A) any license, permit, charter, registration or approval necessary for the performance by such Servicer of its obligations under this Agreement is to be, or may be, suspended or revoked, or (B) such Servicer is to cease and desist any practice, procedure or policy employed by such Servicer in the conduct of its business, and such cessation may result in a material adverse change in the financial condition or operations of such Servicer;

(vii) any merger, consolidation or sale of substantially all of the assets of such Servicer; or

(viii) the final payment in full of the Notes.

(f) Maintenance of Licenses. Such Servicer shall maintain all licenses, permits, charters and registrations which are material to the performance by such Servicer of its obligations under this Agreement.

(g) Notices. Such Servicer shall promptly notify the Trustee, the Noteholders, the Rating Agency and the Supervisory Servicer in writing of any event, circumstance or occurrence which may materially and adversely affect the ability of such Servicer to service any Loan or to otherwise perform and carry out its duties, responsibilities and obligations under and in accordance with this Agreement.

SECTION 2.3 CLOSING CERTIFICATE AND OPINION. On the Closing Date, such Servicer will deliver to the Issuer, the Placement Agent, the Supervisory Servicer, the Noteholders and the Trustee an Opinion of Counsel, dated the Closing Date, in form and substance satisfactory to the Noteholders, as to the due authorization, execution and delivery of this Agreement by such Servicer and the enforceability thereof and such other matters as reasonably requested by the Noteholders. On the Closing Date, such Servicer shall also deliver an Officers' Certificate, dated the Closing Date, signed by two Authorized Officers, to the effect that:

(a) the representations and warranties contained in Section 2.1 hereof are true and correct in all material respects as of the Closing Date;

(b) no Servicer Default exists hereunder; and

(c) such Servicer maintains such errors and omissions insurance and fidelity bond coverage as is required by this Agreement.

SECTION 2.4 FIDELITY BOND AND INSURANCE. Such Servicer shall maintain with a responsible company, at its own expense, a blanket fidelity bond in a minimum amount of $1,000,000 and an errors and omissions insurance policy with coverage in an amount deemed reasonable by such Servicer with coverage on all officers, employees or other persons acting in any capacity requiring such persons to handle funds, money, documents or papers relating to the Loans ("Servicer Employees"). Any such fidelity bond and errors and omissions insurance shall protect and insure the Trust Estate and the Trustee, as Trustee for the Noteholders, its officers, employees and agents against losses, including losses resulting from forgery, theft, embezzlement, fraud, errors and omissions and negligent acts of such Servicer Employees. No

provision of this Section 2.4 requiring such fidelity bond and errors and omissions insurance shall diminish or relieve such Servicer from its duties and obligations as set forth in this Agreement. Upon the request of the Trustee, the Servicer shall cause to be delivered to the Trustee a certified true copy of such fidelity bond and insurance policy. Coverage of such Servicer under a policy or bond obtained by an Affiliate of such Servicer and providing the coverage required by this Section shall satisfy the requirements of this Section.

SECTION 2.5 ACCESS TO CERTAIN DOCUMENTATION AND INFORMATION REGARDING THE LOANS. Such Servicer shall provide to the Trustee, the Issuer, the Supervisory Servicer, the Noteholders and their representatives or designees access to the documentation regarding the Loans, such access being afforded without charge but only upon reasonable request and during normal business hours at the offices of such Servicer provided that such access shall not be requested more frequently than is reasonable or justifiable; provided, further, however, following the occurrence and during the continuance of a Servicer Default, the Trustee, the Issuer, the Supervisory Servicer and the Noteholders shall have unfettered access to the documentation relating to the Loans.

Such Servicer shall at all times maintain accurate records and books of account and an adequate system of audit and internal controls. All accounting and loan servicing records pertaining to each Loan shall be maintained in such manner as will permit the Trustee, the Noteholders and the Supervisory Servicer or their duly authorized representatives and designees to examine and audit and make legible reproductions of records during reasonable business hours. All such records shall be maintained until no Notes remain Outstanding or such longer period as is required by Law, including but not limited to, all transaction registers and loan ledger histories.

SECTION 2.6 MERGER OR CONSOLIDATION. Such Servicer will keep in full effect its existence, rights and franchises, and will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Agreement or any of the Loans it services and to perform its duties under this Agreement.

Any Person into which such Servicer may be merged or consolidated, or any Person resulting from any merger, conversion or consolidation to which such Servicer shall be a party, or any Person succeeding to the business of such Servicer, shall be an established mortgage loan servicing institution that has a net worth of at least $50,000,000 (unless such Person is then a Servicer hereunder or is otherwise consented to in writing by the Trustee and the Required Noteholders) and shall be the successor of such Servicer hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto except for notice thereof to the Rating Agency, anything herein to the contrary notwithstanding, provided such successor accepts the terms and conditions of this Agreement. Such Servicer shall, upon making a determination that it will enter into any such merger or consolidation, send written notice thereof to the Trustee, the Noteholders, the Supervisory Servicer and the Rating Agency which shall in no event be less than thirty (30) days prior written notice.

SECTION 2.7 INDEMNIFICATION. Such Servicer agrees to indemnify and hold the Issuer, the Trust Estate, the Placement Agent, the Supervisory Servicer, the Trustee and the Noteholders

(and each of their respective officers, directors, employees and agents) each harmless against any and all claims, losses, damages, penalties, fines, forfeitures, reasonable legal fees and related costs, judgments, and other costs and expenses ("Losses") resulting from any claim, demand, defense or assertion based on or grounded upon, or resulting from, a breach of any of such Servicer's representations and warranties contained in this Agreement or the negligence, bad faith or willful misconduct of such Servicer relating to the performance of its duties hereunder and servicing the Loans it is responsible for servicing in compliance with the terms of this Agreement. Such Servicer agrees to indemnify and hold each of the Trustee and the Supervisory Servicer and each of their respective officers, directors, employees and agents harmless against any and all Losses incurred by such indemnified Person except for such actions to the extent caused by any negligence, bad faith or willful misconduct on the part of such indemnified Person, arising out of the administration of this Agreement, the Indenture or the Supervisory Servicing Agreement or the exercise or performance of any of such indemnified Person's rights, powers or duties hereunder or thereunder. The Issuer, the Placement Agent, the Supervisory Servicer or the Trustee, as the case may be, shall immediately notify the Servicers if a claim is made by a third party with respect to this Agreement or the Loans; provided, however, that failure to so notify shall not relieve the applicable Servicer of its obligations hereunder except to the extent such Servicer is materially prejudiced thereby. Notwithstanding anything to the contrary contained herein, no Person acting as Servicer hereunder shall have any liability under this Section 2.7 for the indemnification of any claim based upon or arising from the action or omission of any predecessor Servicer.

ARTICLE 3
GENERAL ADMINISTRATION AND SERVICING OF LOANS

SECTION 3.1 GENERAL DUTIES OF THE SERVICERS. (a) For and on behalf of the Issuer, the Trustee and the Holders, each Servicer shall service and administer the Loans it is responsible for servicing in accordance with the provisions of this Agreement and the instructions of the Trustee hereunder. Unless otherwise specified herein with respect to specific obligations of such Servicer, such Servicer shall service and administer the Loans it is responsible for servicing in the best interests of, and for the benefit of, the Holders, in accordance with the Servicing Standard.

(b) Consistent with the terms of this Agreement, the Servicers may waive, modify or vary any term of any Loan or consent to the postponement of strict compliance with any such term or in any manner grant indulgence to any Obligor if, in such Servicer's reasonable determination, such waiver, modification, postponement or indulgence is not materially adverse to the interests of the Trustee on behalf of the Noteholders and such Servicer would make the same determination if it serviced the Loan for its own account; provided, however, that such Servicer may not permit any modification (except in connection with a plan of liquidation or reorganization of the related Obligor) with respect to any Loan that would change the Loan Rate or the default rate, forgive the payment of any principal or interest (unless in connection with the liquidation of the related Loan or in connection with a plan of liquidation or reorganization of the related Obligor), except as permitted by Section 3.6, waive any prepayment fee or penalty, release any primary collateral (the first lien Mortgage) securing the Loan or defer or extend the final maturity date of such Loan beyond the term of the Notes without the written consent of all

of the Noteholders. Notwithstanding the foregoing in the event that any Loan is in default, or in the judgment of the Servicer, such default is reasonably foreseeable, such Servicer, consistent with the Servicing Standard and written notice to the Trustee, may also waive, modify or vary any term of such Loan (including modifications that would change the Loan Rate or the default rate, forgive the payment of any principal or interest, waive any prepayment fee or penalty, release any primary collateral securing the Loan or defer or extend the final maturity date of such Loan beyond the term of the Notes). Without limiting the generality of the foregoing, and subject to the consent of the Trustee and in accordance with the Servicing Standard, such Servicer shall continue, and is hereby authorized and empowered, to execute and deliver on behalf of the Trustee, all instruments of satisfaction or cancellation, or of partial or full release, discharge and all other comparable instruments, with respect to the Loans it services and with respect to the Mortgaged Properties. If reasonably required by such Servicer, the Trustee shall furnish such Servicer with any powers of attorney and other documents necessary or appropriate to enable such Servicer to carry out its servicing and administrative duties under this Agreement.

SECTION 3.2 NO ASSIGNMENT OR DELEGATION OF DUTIES BY SERVICERS. Each Servicer, as an independent contractor, shall service and administer the Loans for which it is responsible for servicing and shall have full power and authority, acting alone, to do any and all things in connection with such servicing and administration which such Servicer may deem necessary or desirable and consistent with the terms of this Agreement. Such Servicer may not enter into subservicing agreements (except with the other Servicer or an Affiliate) for any servicing and administration of Loans without the prior written consent of the Required Noteholders (which consent shall not be unreasonably withheld) and without notice thereof to the Rating Agency and the Trustee. Except as expressly provided herein, such Servicer shall not assign or transfer (except to the other Servicer or an Affiliate) any of its rights, benefits or privileges hereunder to any other Person, or delegate to or subcontract with, or authorize or appoint any other Person to perform any of the duties, covenants or obligations to be performed by such Servicer hereunder, without notice to the Rating Agency and the Trustee and without the prior written consent of the Required Noteholders (which consent shall not be unreasonably withheld), and absent such written consent any agreement, instrument or act purporting to effect any such assignment, transfer, delegation or appointment shall be void. Such Servicer shall be liable for all acts and omissions of any delegate, subcontractor or other agent appointed pursuant to this Agreement. Nothing contained in this Section 3.2 shall prohibit or be deemed to prohibit such Servicer from contracting with third parties to perform duties that are not duties of such Servicer hereunder that such Servicer deems reasonably necessary in connection with the servicing of the Loans for which it is responsible for servicing including, without limitation, title work, surveying, environmental consulting, property management and maintenance, construction, engineering and architectural consulting.

SECTION 3.3 ESTABLISHMENT OF LOCKBOX ACCOUNT; NOTICES TO OBLIGORS; DEPOSITS IN LOCKBOX ACCOUNT. (a) On or prior to the Closing Date, the Servicers shall cause to be established and maintained, at the Servicers' expense, if the Servicers are PMC and/or PMCT, if not, then at the expense of the Trust Estate, the Lockbox Account with Bank One, N.A. or another Financial Institution having a long-term unsecured debt rating of at least A2 or its equivalent by the Rating Agency at all times that it holds the Lockbox Account (the "Required Rating"). The creation of the Lockbox Account shall be evidenced by a letter agreement substantially in the form of Exhibit B hereto. A copy of such executed letter agreement shall be

furnished to each Servicer, the Placement Agent, the Supervisory Servicer, the Noteholders and the Rating Agency.

(b) Within three (3) Business Days after the Closing Date, each Servicer will prepare and deliver to each of the Obligors with respect to the Loans for which it is responsible for servicing, with a copy of such correspondence to the Trustee and to the Noteholders, notices in the form attached hereto as Exhibit C, directing each such Obligor to send all future Monthly Payments or Principal Prepayments directly to the Lockbox Account.

(c) Notwithstanding the foregoing notices, if such Servicer receives any Collections, including, without limitation, any Monthly Payments, late payment charges or other payments relating to a Loan, such Servicer will receive such funds in trust for the Trustee and, if such Servicer is not a financial institution having a rating of at least "P-1" or its equivalent by the Rating Agency, will forward such funds to the Lockbox Account no later than the Business Day immediately following the date such Servicer obtains knowledge of such receipt. In addition, any Liquidation Proceeds received by such Servicer will be deposited into the Lockbox Account no later than the Business Day immediately following the day such Servicer obtains knowledge of such receipt.

(d) If the Supervisory Servicer assumes the function of Servicer under this Agreement, the Supervisory Servicer shall have the right, at any time and in its sole discretion, to establish and maintain at the expense of the Trust Estate, a new Lockbox Account at a Financial Institution having the Required Rating. Such Lockbox Account shall be evidenced by a letter agreement furnished to the Noteholders and the Rating Agency within (5) Business Days after the new Lockbox Account is established. Within five (5) Business Days of establishing the new Lockbox Account, the Supervisory Servicer will prepare and deliver to each of the Obligors, with copies of such correspondence to the Trustee and to the Noteholders, notice in the form of Exhibit C attached hereto, directing each such Obligor to send all future Monthly Payments directly to the Lockbox Account.

(e) Upon receipt of notice that the institution holding the Lockbox Account no longer has the Required Rating or that Bank One, N.A. no longer wishes to hold the Lockbox Account, the Servicers will, within three (3) Business Days, establish and maintain, at their expense if the Servicers are PMC and/or PMCT, or if not, at the expense of the Trust Estate, a new Lockbox Account at a Financial Institution having the Required Rating. Such Lockbox Account shall be evidenced by a letter agreement substantially in the form of Exhibit B hereto. A copy of the executed letter agreement shall be furnished to the Servicers, the Noteholders, the Supervisory Servicer and the Rating Agency within five (5) Business Days after the new Lockbox Account is established. Within five (5) Business Days of establishing the new Lockbox Account, each Servicer will prepare and deliver to each of the Obligors with respect to the Loans for which it is responsible for servicing, with copies of such correspondence to the Trustee and to the Noteholders, notices in the form of Exhibit C attached hereto, directing each such Obligor to send all future Monthly Payments directly to the Lockbox Account.

SECTION 3.4 PERMITTED WITHDRAWALS FROM THE LOCKBOX ACCOUNT. The Servicers shall have the sole right to withdraw funds from the Lockbox Account and shall, on a daily basis, withdraw all deposits to the Lockbox Account and transfer such funds to the Collection Account

established under the Indenture. The Trustee shall cause the entity holding the Lockbox Account to forward funds held therein as provided herein.

SECTION 3.5 PAYMENT OF TAXES AND OTHER CHARGES. If such Servicer receives notice that any taxes, assessments or other charges which are or may become a lien upon the Mortgaged Property are overdue, such Servicer will give a written demand to the Obligor to pay such amounts and will verify whether such payment has been made within sixty (60) days after mailing such notice (but in any event prior to the time that any taxing authority commences to exercise its available remedies), subject to any right, pursuant to the Mortgage, of an Obligor who is contesting the validity of such charges and has paid to such Servicer a deposit or security in the amount of the contested charge plus possible costs, interest and penalties or who has otherwise established adequate reserves against such liability in accordance with generally accepted accounting principles; provided, further, however, that this provision shall not have the effect of permitting such Servicer to take, or fail to take, any action in respect of the payments described herein that would adversely affect the interest of the Trustee in any Mortgaged Property. If such amounts have not been paid by the Obligor or the Obligor has not deposited or reserved funds therefor as described in the immediately preceding sentence, such Servicer will promptly make such payment as a Servicing Expense and request reimbursement from the Obligor, and from the Trustee in accordance with Section 3.8 hereof.

SECTION 3.6 COLLECTION OF CERTAIN LOAN PAYMENTS. Such Servicer shall make commercially reasonable efforts consistent with the Servicing Standard to collect all payments called for under the terms and provisions of the Loans. Consistent with the foregoing, such Servicer shall not, unless the charging or collection of any such late payment charge, prepayment fee, assumption fee or any penalty or interest would result in the violation or contravention of applicable Law, waive or permit to be waived, except pursuant to such Servicer's customary servicing procedures, any late payment charge or assumption fee. Such Servicer shall not, unless the charging or collection of any such prepayment fee or penalty would result in the violation or contravention of applicable Law, waive or permit to be waived any prepayment fee or any penalty or interest in connection with the prepayment of a Loan; provided, however, at any time on or after the date on which the Outstanding Note Amount is less than 15% of the Outstanding Note Amount on the Closing Date, such Servicer shall have the right, in its sole discretion, to waive the payment of any prepayment fee or other penalty or interest in connection with the prepayment of a Loan. Notwithstanding any other provisions hereof, such Servicer shall not charge or impose on any Obligor, nor seek to charge or impose on any Obligor, nor assert a right to receive, any fee, charge, premium or penalty that if charged or collected would violate or contravene any Law, including usury laws or the terms of the related Loan.

SECTION 3.7 LIMITATION OF LIABILITY OF SERVICERS' OFFICERS AND OTHERS. No director, officer, employee or agent of such Servicer shall be under any liability to the Trustee, the Issuer, the Supervisory Servicer, the Holders or any other persons for any action taken by them or for their refraining to take any action in good faith pursuant to this Agreement or for errors in judgment; except that such provision shall not protect any of them from liability which would be imposed by reason of willful misfeasance, willful misconduct, bad faith or negligence.

SECTION 3.8 SERVICING COMPENSATION; ADVANCES AND EXPENSES. (a) As compensation for its services hereunder, each Servicer shall be paid the Servicing Fee with respect to the Loans

for which it is responsible for servicing. Such Servicer shall be required to pay all expenses incurred by it in connection with its servicing activities hereunder and shall be entitled to reimbursement thereof as described below. The Servicing Fee shall be paid to such Servicer and Servicing Expenses reimbursed to such Servicer pursuant to Section 6.4 of the Indenture.

(b) All reasonable and customary "out-of-pocket" costs and expenses incurred in the performance by such Servicer of its servicing obligations hereunder ("Servicing Expenses") shall constitute routine servicing responsibilities of such Servicer, which shall include, but are not limited to, expenditures for the following, subject to the provisions of this Agreement, (i) attorneys' fees, trustee fees under any deed of trust, recording, filing and publication fees, title report and title search costs, costs associated with environmental audits, court costs, witness fees and all other costs incurred in respect of any enforcement of a Loan, any judicial foreclosure, or any foreclosure sale, trustee's sale or acquisition in lieu of foreclosure, or in respect of the insurance, sale or other disposition of any Mortgaged Property or REO Property; (ii) repair, restoration, maintenance or other protection of any Mortgaged Property (whether incurred before or after such property became an REO Property) in accordance with and subject to the provisions of this Agreement, as applicable; and (iii) compliance with such Servicer's obligations under Section 3.5 hereof. Servicing Expenses shall not include any portion of such Servicer's overhead or normal salary and operating expenses.

SECTION 3.9 THE TRUSTEE'S, THE NOTEHOLDERS' AND SUPERVISORY SERVICER'S RIGHT TO EXAMINE SERVICER RECORDS AND AUDIT OPERATIONS. The Trustee, the Noteholders and the Supervisory Servicer and their designees shall have the right upon reasonable prior notice, during normal business hours and as often as reasonably required, to examine and audit (at no cost to such Servicer unless a Servicer Default has occurred and is then continuing) any and all of the books, records or other information of such Servicer directly relating to the Loans, whether held by such Servicer or by another on behalf of such Servicer, which may be relevant to the performance or observance by such Servicer of the terms, covenants or conditions of this Agreement. The Trustee, the Noteholders and the Supervisory Servicer shall have the right upon reasonable prior notice, during normal business hours and as often as reasonably required to perform ongoing diligence of such Servicer's operations through loan reviews, re-appraisals (at no cost to such Servicer) or other reasonable review of such Servicer's operations. No amounts payable in respect of the foregoing (other than costs associated with re-appraisals) shall be paid from the Trust Estate unless a Servicer Default exists and is then continuing.

SECTION 3.10 MAINTENANCE AND RELEASE OF LOAN DOCUMENTATION; SATISFACTION OF MORTGAGES. (a) Each Servicer shall retain, with respect to each Loan for which it is responsible for servicing, the originals (or copies if originals are not available) of all of the instruments and documents relating to the Loan that would be maintained by a prudent lender servicing such Loan for its own account (the "Servicer Loan File"), except for those original instruments and documents constituting a part of the Trustee Loan File that are required to be held by the Trustee.

Each Servicer Loan File shall remain the property of the Issuer pledged to the Trustee for the benefit of the Holders and shall be held by such Servicer in trust for the benefit of the Trustee on behalf of the Holders. Upon written request of the Trustee, such Servicer shall immediately deliver all or any of such instruments, records and documents in its possession or custody to the Trustee, together with a list identifying each Loan to which such records pertain. Each Servicer,

at its option, may microfilm, microfiche or otherwise condense any records or documents constituting a part of, or relating to, any Loan or any Servicer Loan File for which it is responsible, provided that such Servicer, upon written request by the Trustee, promptly reproduces in their entirety any or all such records or documents at no cost to the Trustee.

(b) Such Servicer shall maintain each Servicer Loan File for a period of four (4) years after the related Loan has been paid in full, is foreclosed upon or is otherwise liquidated, or such longer period as may be required by Law. Such Servicer shall maintain an appropriate account record for each Loan which shall include the permanent loan number for each Loan serviced by such Servicer as shown on the Loan Schedule. Any system utilized for the Loan account records shall be capable of producing, for any Loan, an account transcript itemizing in chronological order the date, amount and application of each Monthly Payment by due date and other information affecting the amounts paid by the Obligor, including the latest outstanding Loan Principal Balance.

(c) Such Servicer shall not grant a satisfaction or release of a Mortgage without having obtained payment in full of the indebtedness secured by the Mortgage or otherwise prejudice any right the Trustee may have under the mortgage instruments, subject to Section 4.1 hereof. Upon the prepayment in full or other liquidation of a Loan, such Servicer shall immediately deposit the prepayment or Liquidation Proceeds in the Lockbox Account or the Collection Account and prepare and deliver to the Trustee and Supervisory Servicer a request for the appropriate instrument releasing the Mortgaged Property from the lien of the Mortgage, together with an Officer's Certificate (i) certifying that (A) all amounts that the Obligor is obligated to pay under the Underlying Note, the Mortgage and any other document pertaining to the Loan, including, but not limited to, all required payments of principal and interest, have been paid in full and deposited in the Lockbox Account or the Collection Account; or (B) all Liquidation Proceeds that such Servicer reasonably believes will be collected with respect to a Liquidated Loan have been collected and deposited in the Lockbox Account or the Collection Account; and (ii) requesting that (X) the Trustee Loan File for such Loan be released by the Trustee to such Servicer and (Y) the Trustee execute and deliver to such Servicer the appropriate instrument prepared by such Servicer necessary to release the lien of the Mortgage, together with the Underlying Note bearing written evidence of cancellation or assignment thereof, as appropriate.

The Trustee shall, upon receipt of a written request from a Servicing Officer and approval of the Supervisory Servicer, execute any document provided to the Trustee by such Servicer or take any other action requested in such request, that is, in the opinion of such Servicer as evidenced by such request, required by any state or other jurisdiction to discharge the lien of a Mortgage upon the satisfaction thereof and the Trustee will sign and post, but will not guarantee receipt of, any such documents to such Servicer, or such other party as such Servicer may direct in writing, within five (5) Business Days of the Trustee's receipt of such certificate or documents. Such certificate or documents shall establish to the Trustee's satisfaction that the related Loan has been paid in full by or on behalf of the Obligor and that such payment has been deposited in the Lockbox Account or the Collection Account, as the case may be.

Upon receipt of the Trustee Loan File, such Servicer shall record the mortgage release or satisfaction in the proper recording office, deliver the Underlying Note and/or the recorded original of such instrument of release or satisfaction to the Obligor, deposit any remaining

documents into the Servicer Loan File, and retain the Servicer Loan File as provided in section (a) and (b) above. Any costs and expenses associated with the release of any Loan shall be the expense of the Trust Estate to the extent not paid by the applicable Obligor.

Any applications for partial release of any part of a Mortgaged Property must be approved in the manner set forth in Section 3.12 hereof.

(d) From time to time as is appropriate, such Servicer may request the Trustee to deliver or cause to be delivered to such Servicer all or part of the documents constituting a part of the Trustee Loan File to facilitate the servicing or foreclosure of any Loan, the acquisition of any Mortgaged Property in lieu of foreclosure, the partial release of any Mortgaged Property from the lien of the Mortgage or the making of any corrections to the Underlying Note or the Mortgage or other documents constituting the Trustee Loan File. To make such request, such Servicer shall deliver to the Trustee an Officer's Certificate requesting that possession of all, or any document constituting part of, the Trustee Loan File be released to such Servicer; such certificate shall certify the reason for such release. Such Servicer also shall deliver to the Trustee together with such certificate a Trust Receipt signed by a Servicing Officer, in substantially the form attached as Exhibit A hereto.

If such Servicer at any time seeks to initiate a foreclosure proceeding with respect to any Mortgaged Property, then such Servicer shall deliver to the Trustee, for signature by the Trustee, as appropriate, any court pleadings, requests for Trustee's sale or other documents necessary to the foreclosure or to any legal action brought to obtain judgment against the Obligor on the Underlying Note or the Mortgage, or to obtain a deficiency judgment, or to enforce any other remedies or rights provided by the Underlying Note or the Mortgage or otherwise available at law or in equity. Such Servicer shall also deliver to the Trustee an Officer's Certificate requesting that such pleadings or documents be executed by the Trustee and certifying as to the reason such documents or pleadings are required and that the execution and delivery thereof by the Trustee will not invalidate the Mortgage except for the termination of such lien upon completion of the proposed foreclosure. Notwithstanding the foregoing, such Servicer shall cause possession of any Trustee Loan File or documents therein that have been released by the Trustee to be returned to the Trustee when the need for such file or documents no longer exists, but in any event within thirty (30) calendar days after release by the Trustee unless (i) the Loan has been liquidated and the Liquidation Proceeds relating to the Loan have been deposited in the Collection Account or (ii) the Trustee Loan File or documents so released have been delivered to an attorney, a public trustee or other public official, as required by Law, to initiate or pursue legal action or other proceedings to foreclose the applicable Mortgage, and such Servicer has delivered to the Trustee an Officer's Certificate certifying as to the name and address of the Person to which the Trustee Loan File, or documents therefrom, have been delivered and the purpose or purposes of such delivery.

(e) Such Servicer shall, at its expense if the Servicer is PMC or PMCT, if not, at the expense of the Trust Estate, prepare and deliver to the Trustee any instruments required in connection with the substitution of a Loan pursuant to Section 3.3 of the Indenture and will pay any recording or filing costs associated therewith.

SECTION 3.11 NOTICE OF LIENS AND OTHER ACTIONS. Such Servicer shall, at all times, exercise reasonable efforts to prevent any lien or judicial levy upon or writ of attachment against

a Mortgaged Property of which such Servicer is notified or otherwise has knowledge, which is, or may be, superior to the lien of the Mortgage.

SECTION 3.12 WAIVERS, RELEASES, CONDEMNATIONS, EASEMENTS AND ALTERATIONS. Any applications for partial releases of real property and releases of personal property which are part of a Mortgaged Property, the creation or release of easements, waivers of rights under any Mortgage, consent to alteration, removal or demolition of improvements and other matters affecting the Mortgage or the Mortgaged Property, other than those which are contractually provided for in the Underlying Note or related loan documents, shall be subject to the prior written approval of the Trustee which consent shall not be unreasonably withheld and which shall be provided only upon written certification by such Servicer that such action is consistent with the Servicing Standard and the Mortgage and the ability to collect under the Underlying Note will not be adversely affected by such release.

SECTION 3.13 LIMITATION ON LIABILITY OF SERVICERS AND OTHERS. Such Servicer and any director, officer, employee or agent of such Servicer may rely on any document of any kind which it in good faith reasonably believes to be genuine and to have been adopted or signed by the proper authorities respecting any matters arising hereunder. Subject to the terms of Section 2.7 herein, such Servicer shall have no obligation to appear with respect to, prosecute or defend any legal action which is not incidental to such Servicer's duty to service the Loans in accordance with this Agreement. The Issuer agrees to indemnify and hold such Servicer harmless from any loss, claim, demand, liability or expense (including, without limitation, past acts of predecessor Servicers and fees and expenses of legal counsel) arising from or relating to the performance of its duties under this Agreement which do not result from such Servicer's negligence, bad faith or willful misconduct.

SECTION 3.14 PROPERTY ADDRESS CHANGE. Such Servicer shall note in its records and notify the Trustee of all changes of address of an Obligor or of a Mortgaged Property of which such Servicer is notified or of which such Servicer has knowledge.

ARTICLE 4
SPECIFIC SERVICING PROCEDURES

SECTION 4.1 ASSUMPTION AGREEMENTS. When a Mortgaged Property has been or is about to be conveyed by the Obligor, such Servicer shall, at its option, to the extent it has knowledge of such conveyance or prospective conveyance, either (i) exercise its rights to accelerate the maturity of the related Loan under any "due-on-sale" clause contained in the related Mortgage or Underlying Note; provided, however, that such Servicer shall not exercise any such right if the "due-on-sale" clause, in the reasonable belief of such Servicer, is not enforceable under applicable law or if such enforcement would materially increase the risk of default or delinquency on, or materially decrease the security for, such Loan, or (ii) enter into an assumption and modification agreement with the person to whom such property has been or is about to be conveyed, pursuant to which such person becomes liable under the Underlying Note and, unless prohibited by applicable law or the Mortgage, the Obligor shall remain liable thereon. Such Servicer may enter into an assumption agreement with the transferee only if (a) the transferee qualifies for credit under the customary credit policies of such Servicer, (b) an officer of such Servicer has examined and approved all instruments as are necessary to carry out

the assumption transaction and approved such instruments as to form and substance, (c) the execution and delivery of such instruments by all necessary parties will not cause the unpaid principal balance and any accrued interest thereon for the Loan to be uncollectible in whole or in part, and (d) upon closing the assumption transaction (i) the Mortgage will continue to be a first lien upon the Mortgaged Property, and (ii) the Loan Rate and Monthly Payment for the Loan will not be changed nor will the term of the Note be extended or shortened. For each proposed assumption transaction, such Servicer shall deliver an Officer's Certificate to the Trustee certifying that each of the applicable requirements specified in the immediately preceding sentence have been satisfied together with the assumption instruments requiring execution by the Trustee. Such certificate shall also indicate whether the seller/transferor of the Mortgaged Property will be released from liability on the Loan and that such Servicer has made a good faith determination that any such release will not adversely affect the collectibility of the Loan. Such Servicer shall perform substantially the same level of due diligence with respect to the transferee as was performed on the seller/transferor in connection with the origination of the Loan and shall release the seller/transferor from liability only if any applicable Law requires that the transferor-Obligor be released from liability on the Loan or such Servicer has made a good faith determination that the applicable requirements set forth above have been satisfied.

Such Servicer is also authorized with the prior approval of the Trustee to enter into a substitution of liability agreement with such transferee, pursuant to which the original Obligor is released from liability and such person is substituted as Obligor and becomes liable under the Underlying Note. Such Servicer shall notify the Trustee that any such substitution or assumption agreement has been completed by forwarding to the Trustee the original of such substitution or assumption agreement, which original shall be added by the Trustee to the related Trustee's Loan File and shall, for all purposes, be considered a part of such Trustee's Loan File to the same extent as all other documents and instruments constituting a part thereof. Any fee collected by such Servicer for consenting to any such conveyance or entering into an assumption or substitution agreement shall be retained by or paid to such Servicer as additional servicing compensation.

Notwithstanding the foregoing paragraph or any other provision of this Agreement, such Servicer shall not be deemed to be in default, breach or any other violation of its obligations hereunder by reason of any assumption of a Loan by operation of law or any assumption which such Servicer may be restricted by law from preventing, for any reason whatsoever.

SECTION 4.2 SERVICING DELINQUENT ACCOUNTS; LIQUIDATION OF LOANS. (a) Each Servicer shall exercise diligence in obtaining payment of Monthly Payments when due under the terms of each Loan for which it is responsible and shall use commercially reasonable efforts consistent with the Servicing Standard to contact any delinquent Obligor.

If any delinquent Obligor shall be or become a bankrupt or otherwise become the subject of any insolvency or similar proceeding, such Servicer shall notify the Trustee of such event and, thereafter, shall carry out all reasonable actions necessary for the benefit and protection of the interests of the Trustee and the Holders, including, but not limited to, retention of counsel to represent the Trustee in any bankruptcy or other court proceedings relating to such Obligor or the Mortgaged Property.

If any Loan previously reported on a Determination Date Report as more than ninety (90) days delinquent is subsequently reported as being brought current, such Servicer will verify with the relevant Obligor that the Obligor paid the delinquent payments, by sending the Obligor the letter in the form attached hereto as Exhibit H.

(b) In the event that any payment due under any Loan and not postponed pursuant to Section 3.1 is not paid when the same becomes due and payable, or in the event the Obligor fails to perform any other covenant or obligation under such Loan and such failure continues beyond any applicable grace period, such Servicer shall take such other action as it shall deem to be in the best interests of the Trustee and the Holders. Such Servicer shall foreclose upon or otherwise effect the ownership in the name of the Trustee of Mortgaged Properties relating to defaulted Loans as to which no satisfactory arrangements can be made for collection of delinquent payments in accordance with the customary collection policies of such Servicer and the provisions of Section 3.1. In connection with such foreclosure or other conversion, such Servicer shall exercise collection and foreclosure procedures with the same degree of care and skill in its exercise or use as it would exercise or use under the circumstances in the conduct of its own affairs and shall in any event, comply with the Servicing Standard. Such Servicer shall use its commercially reasonable efforts consistent with the Servicing Standard to realize upon such defaulted Loans in accordance with the Servicing Standard. Such Servicer shall be responsible for all other costs and expenses incurred by it in any foreclosure proceedings; provided, however, that it shall be entitled to reimbursement thereof as contemplated in Sections 3.8 and 4.3 hereof.

No modification, recast or extension of a Loan other than as provided above and in Section 3.1 is permitted without the prior written consent of the Trustee.

Notwithstanding the foregoing provisions of this Section 4.2, such Servicer shall not, on behalf of the Trustee, obtain title to a Mortgaged Property by deed in lieu of foreclosure or otherwise, or take any other action with respect to any Mortgaged Property, if, as a result of any such action, the Trustee, on behalf of the Noteholders, could, in the reasonable judgment of such Servicer, made in accordance with the Servicing Standard, be considered to hold title to, to be a "mortgagee-in possession" of, or to be an "owner" or "operator" of such Mortgaged Property within the meaning of CERCLA or any comparable law, unless such Servicer has previously determined in accordance with the Servicing Standard, based on a Phase I Environmental Assessment (and any additional environmental testing that such Servicer deems necessary and prudent) of such Mortgaged Property conducted by an Independent Person who regularly conducts Phase I Environmental Assessments and performed during the twelve-month period preceding any such acquisition of title or other action, that the Mortgaged Property is in material compliance with applicable environmental laws and regulations or, if not, that it would maximize the recovery to the Noteholders on a present value basis to acquire title to or possession of the Mortgaged Property and to effect such compliance.

(c) If the environmental testing contemplated by Section 4.2(b) above establishes that any of the conditions set forth therein have not been satisfied with respect to any Mortgaged Property securing a defaulted Loan, such Servicer shall, in accordance with the Servicing Standard, prepare a written report to the Trustee and the Noteholders summarizing the

environmental condition of the Mortgaged Property and proposing a course of action to pursue with respect to such Mortgaged Property. The Servicer may not undertake such proposed course of action without the prior written consent of the Required Noteholders; provided, however, notwithstanding the foregoing, in the event that such Servicer has not received through the Trustee the written objection to such proposed course of action of the Required Noteholders within forty-five (45) days of the Trustee's distributing such notice, such Servicer shall be deemed to have been directed by the Noteholders to take such proposed action.

(d) Such Servicer shall report to the Trustee monthly in writing as to any actions taken by such Servicer with respect to any Mortgaged Property as to which the environmental testing contemplated in Section 4.2(b) above has revealed that any of the conditions set forth have not been satisfied, in each case until the earliest to occur of satisfaction of all such conditions and the release of the Lien of the related Mortgage on such Mortgaged Property.

(e) If foreclosure has been approved as provided above, such Servicer shall initiate or cause to be initiated the foreclosure action according to such procedures as are authorized by Law and the practices in the locality where the Mortgaged Property is located. In the event that title to the Mortgaged Property is acquired in foreclosure or by deed in lieu of foreclosure, the deed or certificate of sale shall be taken in the name of the Trustee for the benefit of the Holders.

(f) Such Servicer shall have the right to determine, in accordance with the Servicing Standard, the advisability of seeking to obtain a deficiency judgment if the state in which the Mortgaged Property is located and the terms of the Loan permit such an action and shall, in accordance with the Servicing Standard, seek such deficiency judgment if it deems advisable.

(g) After a Loan has become a Liquidated Loan, such Servicer shall promptly prepare and forward to the Trustee a liquidation report detailing the Liquidation Proceeds received from the Liquidated Loan, expenses incurred with respect thereto and any Realized Loss incurred in connection therewith.

(h) If the requirements of Sections 4.2(b) and (c) hereof have been satisfied, such Servicer may accept a deed in lieu of foreclosure, provided that (i) marketable title as evidenced by a policy of title insurance can be conveyed to and acquired by the Trustee or its designee; (ii) no cash consideration is to be paid to the Obligor by the Trustee; and (iii) such Servicer has obtained from the Obligor a written acknowledgment that the deed is being accepted as an accommodation to the Obligor and on the condition that the Mortgaged Property will be transferred to the Trustee or its designee free and clear of all claims, liens, encumbrances, attachments, reservations or restrictions except for those to which the Mortgaged Property was subject at the time the Mortgaged Property became subject to the Mortgage. Title shall be conveyed directly from the Obligor to the Trustee for the benefit of the Holders.

(i) Such Servicer will indemnify and hold harmless the Trustee, the Noteholders, the Supervisory Servicer and their respective directors, officers, agents and employees from and against any and all claims, demands, losses, penalties, liabilities, costs, damages, injuries and expenses, including, without limitation, reasonable attorneys' fees and expenses, suffered or sustained by such parties, either directly or indirectly, relating to or arising out of the violation of an Environmental Law with respect to a Mortgaged Property resulting from such Servicer's

failure to perform its obligations hereunder, including without limitation any expenses and other costs incurred in connection with the defense of any such action, proceeding or claim. This obligation shall survive the termination of this Agreement, the Indenture and the Supervisory Servicing Agreement or the earlier resignation or removal of the Trustee or the Supervisory Servicer, as the case may be.

SECTION 4.3 FORECLOSURE EXPENSES. Such Servicer shall prepare a written estimate of the amount of attorneys' fees, trustee's fees and other costs in respect of any foreclosure or acquisition in lieu of foreclosure and shall send copies of such estimate to the Trustee. Such Servicer shall arrange payment of attorneys' fees, trustees' fees and other foreclosure costs at the commencement of foreclosure proceedings.

Such Servicer may reimburse itself for any Servicing Expenses paid by such Servicer, made in connection with such Loan or such foreclosure or other action, out of amounts received by such Servicer in connection with liquidation of the Loan, prior to remittance of any such amounts to the Lockbox Account.

SECTION 4.4 TITLE, MANAGEMENT AND DISPOSITION OF REO PROPERTY. (a) Upon the acquisition of REO Property by such Servicer by foreclosure or conveyance in lieu of foreclosure, such Servicer shall notify the Trustee promptly that the REO Property has been acquired and shall thereafter: (i) deliver the deed or certificate of sale to the Trustee, or its nominee; (ii) manage, conserve and protect the REO Property in the same manner and to such extent as is customary in the locality where such REO Property is located including the rental of the same, or any part thereof, as such Servicer deems to be in the best interest of the Trustee for the benefit of the Holders; (iii) pay all costs such as taxes and assessments relating to the REO Property; (iv) process any claims for redemption and otherwise comply with any redemption procedures required by Law; (v) sell or otherwise dispose of the REO Property and remit the proceeds to the Trustee; and (vi) timely file any and all federal, state and local tax or information returns or reports as are required as a result of the acquisition or disposition of REO Property and perform any withholding required in connection therewith. Such Servicer shall not acquire any REO Property relating to a Charged-Off Loan that is required to be released from the lien of the Indenture and disposed of by the Issuer on the next Payment Date. If any REO Property is expected to be acquired, such Servicer shall inform the Issuer, the Noteholders and the Trustee and the Issuer shall comply with Section 5.14 of the Indenture.

Such Servicer shall manage, conserve, protect and operate each REO Property for the Trustee solely for the purpose of its prudent and prompt disposition and sale. Such Servicer shall, either itself or through an agent selected by such Servicer, manage, conserve, protect and operate the REO Property in the same manner that it manages, conserves, protects and operates other foreclosed property for its own account and in the same manner that similar property in the same locality as the REO Property is managed. Such Servicer shall attempt to sell the same (and may temporarily rent the same) on such terms and conditions as such Servicer deems to be in the best interest of the Holders.

(b) Until the REO Property is disposed of, such Servicer shall (i) take appropriate action to secure the REO Property and maintain proper surveillance over it; (ii) advance all costs such as taxes and assessments; (iii) maintain the REO Property so as to preserve its value and

prevent any additional deferred maintenance; and (iv) submit monthly statements for services to the Trustee, together with additional documentation including statements of income and expenses (accompanied by copies of paid invoices for every expense item).

(c) Until the REO Property is disposed of, such Servicer shall maintain for such REO Property, a standard hazard insurance policy providing fire and extended coverage in an amount equal to the full replacement cost of all improvements on the Mortgaged Property, which requirement may be satisfied by a master force placed or blanket insurance policy insuring against hazard losses. If the Mortgaged Property is in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards (and such flood insurance has been made available) such Servicer shall maintain a flood hazard insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration with an insurance carrier generally acceptable to commercial mortgage lending institutions for properties, similar to the REO Property in an amount representing coverage not less than the lesser of (i) the full insurable value of such REO Property, or (ii) the maximum amount of insurance which is available under the Flood Disaster Protection Act of 1973, as amended from time to time. Such Servicer will also maintain comprehensive general liability insurance and business interruption insurance (to the extent applicable) in such amounts as are then customary for similarly situated properties and businesses.

(d) Such Servicer shall advance all funds necessary for the proper operation, management, insurance and maintenance of the REO Property. On each Determination Date Report, such Servicer shall schedule its reasonable expenses with respect to any REO Property for the related Collection Period.

(e) Such Servicer shall deposit all funds collected and received in connection with the operation or disposition of any REO Property in the Lockbox Account no later than the Business Day immediately following notice of receipt of such funds, net of funds necessary for the proper operation, management, insurance and maintenance of the REO Property.

(f) If as of the date of disposition of any REO Property there remain unpaid Servicing Fees with respect to the related Loan, such Servicer, shall be entitled to payment for the unpaid Servicing Fees and reimbursement for the unreimbursed related Servicing Expenses from proceeds received in connection with the disposition prior to remittance of any proceeds to the Collection Account.

Disposition of REO Property shall be carried out by such Servicer at such price and upon such terms and conditions as such Servicer, in its judgment, believes to be in the best interests of the Holders, subject to and in accordance with Section 4.2. Upon the sale of any Mortgaged Property, such Servicer shall remit the net cash proceeds remaining after payment of expenses of the sale to the Lockbox Account.

(g) If any Charged-Off Loan is expected to be released from the lien of the Indenture on the next Payment Date, such Servicer shall not commence a foreclosure proceeding or accept a deed in lieu of foreclosure. Any determination by such Servicer that a Loan is a Charged-Off Loan shall be made in good faith.

ARTICLE 5
REPORTS TO BE PROVIDED BY SERVICERS

SECTION 5.1 DETERMINATION DATE REPORTS.

(a) Monthly Reports. Each month, not later than 12:00 noon Dallas time on the third (3rd) Business Day preceding each Payment Date, the Servicers shall deliver to the Trustee, by telecopy, the receipt and legibility of which shall be confirmed telephonically, with hard copy thereof to be delivered on the next Business Day, with copies to the Supervisory Servicer (if other than the Trustee), the Noteholders, the U.S. Small Business Administration and the Rating Agency, a Determination Date Report in the form attached hereto as Exhibit D signed by a Servicing Officer stating the date (day, month and year), referring to this Agreement by name and date and stating, as of the close of business on the immediately preceding Determination Date:

(i) the aggregate amount of all funds received in respect of scheduled principal payments on the Loans during the related Collection Period;

(ii) the aggregate amount of interest received on the Loans during the related Collection Period;

(iii) the number and Loan Principal Balances of all Loans which were the subject of Principal Prepayments during the related Collection Period and the aggregate amount of Principal Prepayments received with respect to the Loans during such Collection Period;

(iv) the aggregate Loan Principal Balance of the Loans as of the related Determination Date, stating any REO Properties separately;

(v) the loan number and Loan Principal Balance of each Delinquent Loan for the related Collection Period;

(vi) the loan number and the aggregate number and aggregate Loan Principal Balance of Loans delinquent thirty-one (31) to sixty (60) days, sixty-one (61) to ninety (90) days, ninety-one (91) to one hundred twenty (120) days, one hundred twenty-one (121) to one hundred eighty (180) days days, and one hundred eighty-one (181) or more days as of the Determination Date;

(vii) the loan number and the aggregate number and aggregate Loan Principal Balance of Loans which were Charged-Off Loans as of the Determination Date and the related recovery thereon;

(viii) the number and aggregate Loan Principal Balance of Loans (A) which will be released from the lien of the Indenture during the related Collection Period or on the related Payment Date, (B) which have been repurchased including the Takeout Price therefor and (C) which have been

substituted for a Substitute Loan including any Asset Substitution Shortfall therefor;

(ix) the number and aggregate Loan Principal Balance of Loans which were in foreclosure as of the related Determination Date;

(x) with respect to any Loan that became an REO Property during the related Collection Period, (a) the Loan Principal Balance of such Loan as of the date title to such REO Property was acquired, (b) the book value and length of time held of each REO Property as of the related Determination Date, and (c) the income and expenses incurred by the applicable Servicer in connection with any REO Property during the related Collection Period;

(xi) the amount of any Realized Losses incurred during the related Collection Period;

(xii) the cumulative Realized Losses since the Closing Date;

(xiii) the Principal Distribution Amount for the related Payment Date and information as to the calculation of such amount;

(xiv) the Interest Distribution Amount for the related Payment Date and information as to the calculation of such amount;

(xv) the Retained Distribution Amount, if any, for the related Payment Date and information as to the calculation of such amount;

(xvi) the Outstanding Note Amount;

(xvii) the Servicing Fee, Supervisory Servicer's Fee, if any, and Trustee's Fee due on the related Payment Date;

(xviii) the amount of all Servicing Expenses paid by each Servicer during such Collection Period and any and all other amounts deducted by each Servicer in accordance with the terms hereof from Collections received by each Servicer prior to remittance thereof to the Lockbox Account and a detailed report describing the type and amount of all such Servicing Expenses and other deductions;

(xix) information as to any Funds Retention Event, Redemption Trigger Event or Rating Downgrade;

(xx) the Specified Spread Account Requirement, including the beginning balance of the Spread Account, additions thereto and transfers therefrom during the related Collection Period and any related Loan delinquency percentages resulting in an increase in the Specified Spread Account Requirement; and

(xxi) such other information as the Trustee, the Noteholders or the Rating Agency may reasonably require.

To the extent that there are inconsistencies between the telecopy of the Servicers' Certificate and the hard copy thereof, the Trustee shall be entitled to rely upon the telecopy.

(b) Annual Statement. Within ninety (90) days after the end of each calendar year, the Servicers shall furnish to the Trustee and the Noteholders such information in the form attached hereto as Exhibit E as is reasonably necessary to provide to the Holders a statement containing the aggregate amount of principal of and interest on the Notes paid during the prior calendar year, aggregated for such calendar year or applicable portion thereof during which such Person was a Holder. Such obligation of the Servicers shall be deemed to have been satisfied to the extent that substantially comparable information shall be provided by the Servicers pursuant to any requirements of the Code as from time to time are in force.

(c) Computer Data. Prior to the Closing Date the Servicers shall provide the Supervisory Servicer with all data on the Servicers' computerized servicing system relating to the Loans in an electronically readable form specified by the Supervisory Servicer and shall update such data at least monthly.

(d) Other Reports. The Servicers shall furnish to the Trustee, the Noteholders, the Rating Agency and the Supervisory Servicer, during the term of this Agreement, such periodic, special or other reports, Officer's Certificates, data relating to the Loans or information, whether or not provided for herein, as shall be reasonably requested, all such reports or information to be provided by and in accordance with such applicable instructions and directions as the Trustee, the Noteholders or the Supervisory Servicer may reasonably require; provided, however, the Servicers shall be reimbursed for the reasonable cost of providing such additional reports.

SECTION 5.2 REPORTS OF FORECLOSURE AND ABANDONMENT OF MORTGAGED PROPERTY. Each year the Servicers shall make any reports of foreclosures and abandonments of any Mortgaged Property required by the Code.

SECTION 5.3 QUARTERLY STATEMENT AS TO COMPLIANCE. The Servicers will deliver to the Trustee, the Noteholders, the Rating Agency and the Supervisory Servicer, quarterly, no later than each April 15, July 15, October 15 and January 15, for each quarterly period ending on each March 31, June 30, September 30 and December 31, commencing on October 15, 2001, an Officer's Certificate in the form attached hereto as Exhibit F stating that (a) the Servicers have fully complied with the provisions of this Agreement, (b) a review of the activities of the Servicers during the preceding quarter and of the Servicers' performance under this Agreement has been made under such officer's supervision and (c) to the best of such officer's knowledge, based on such review, the Servicers have fulfilled all of their obligations, duties and responsibilities under this Agreement throughout such quarterly period (or, with respect to the first such report, since the Closing Date) and no Servicer Default exists, or, if there has been a default or failure in the fulfillment of any such obligation, specifying each such default or failure known to such officer and the nature and status thereof and the action being taken by the applicable Servicer to cure such default.

SECTION 5.4 ANNUAL INDEPENDENT PUBLIC ACCOUNTANTS' SERVICING REPORT. The Servicers at their expense shall cause a nationally recognized firm of independent certified public accountants to furnish a statement to the Trustee, the Supervisory Servicer, the Noteholders, and each Rating Agency on or before May 1 of each year, commencing on May 1, 2002, to the effect that, with respect to the most recently ended fiscal year, such firm has examined certain records and documents relating to the Servicers' performance of their servicing obligations and that, on the basis of such examination, conducted substantially in compliance with the Uniform Single Attestation Program for Mortgage Bankers, such firm is of the opinion that such servicing has been conducted substantially in compliance in all material respects with the requirements of the standard servicing procedures outlined in the Uniform Single Attestation Program for Mortgage Bankers, except for such exceptions noted therein. In the event such firm requires the Trustee or the Supervisory Servicer to agree to the procedures performed by such firm, the Servicers shall direct the Trustee and the Supervisory Servicer in writing to so agree; it being understood and agreed that the Trustee and the Supervisory Servicer will deliver such letter of agreement in conclusive reliance upon the direction of the Servicers, and each of the Trustee and the Supervisory Servicer makes no independent inquiry or investigation as to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such procedures.

SECTION 5.5 SERVICERS' FINANCIAL STATEMENTS; ANNUAL CERTIFICATION. Within one hundred twenty (120) days after the end of each fiscal year beginning with the fiscal year ending December 31, 2001, each Servicer shall submit to the Trustee, the Noteholders and the Rating Agency a copy of its annual audited financial statements or in the event the Servicers are not PMC and/or PMCT, a copy of the annual audited consolidated financial statement of its parent. Within forty-five (45) days after the end of each of the first three (3) fiscal quarters of each fiscal year beginning with the quarter ending September 30, 2001, each Servicer shall submit to the Trustee, the Noteholders and the Rating Agency a copy of its quarterly financial statements. This Section 5.5 notwithstanding, if the Supervisory Servicer assumes the role of Servicer, it shall not be obligated to submit copies of its quarterly financial statements. Such financial statements shall, to the extent required by the Securities Exchange Act of 1934, as amended, whether or not the Servicer is subject to such Act, include a balance sheet, income statement, statement of retained earnings, beneficiaries' (or shareholders') equity, statement of cash flows and all related notes and schedules and shall be in comparative form.

Contemporaneously with the submission of the financial statements required by the preceding paragraph, the Servicers shall deliver to the Trustee, the Noteholders and the Rating Agency an Officer's Certificate in the form attached hereto as Exhibit G to the effect that:

(a) such officer has confirmed that the Fidelity Bond, the Errors and Omissions Insurance Policy and any other bonds or insurance required by Section 2.4 hereof are in full force and effect; and

(b) the representations and warranties of such Servicer set forth in Section 2.1 are true and correct in all material respects as if made on the date of such certification.

Such Servicer shall also furnish and certify such other information as to its organization, activities and personnel as the Trustee, the Noteholders the Rating Agency or the Supervisory Servicer may reasonably request from time to time.

ARTICLE 6
DEFAULTS

SECTION 6.1 SERVICER DEFAULTS. The happening of any one or more of the following events shall constitute a Servicer Default hereunder:

(a) Any failure by either Servicer to make any payment, deposit, advance or transfer of funds required to be paid, deposited, advanced or transferred under the terms of this Agreement, and such failure continues unremedied for five (5) days after discovery by such Servicer of such failure or receipt by such Servicer of notice of such failure;

(b) Failure on the part of either Servicer duly to observe or perform in any material respect any of its respective covenants or agreements contained in this Agreement or the Supervisory Servicing Agreement which continues unremedied for thirty (30) days after the earlier to occur of the Servicer obtaining actual knowledge of such failure or the Servicer's receipt of written notice of such failure or breach as the case may be; provided, however, if such failure shall be of a nature that it cannot be cured within thirty (30) days, such failure shall not constitute a Servicer Default hereunder if within such 30-day period the Servicer gives notice to the Trustee and the Supervisory Servicer of the corrective action it proposes to take, which corrective action is agreed in writing by the Trustee to be satisfactory and the Servicer shall thereafter pursue such corrective action diligently until such default is cured but in no event longer than ninety (90) days after such notice is given;

(c) A decree or order of a court or agency or supervisory authority having jurisdiction in the premises for the appointment of a conservator or receiver or liquidator in any insolvency, bankruptcy, readjustment of debt, marshaling of assets and liabilities or similar proceedings, or for the winding-up or liquidation of its affairs, shall have been entered against a Servicer, and such decree or order shall have remained in force undischarged or unstayed for a period of ninety (90) days;

(d) A Servicer shall consent to the appointment of a conservator or receiver or liquidator in any insolvency, bankruptcy, readjustment of debt, marshaling of assets and liabilities or similar proceedings of or relating to such Servicer or of or relating to all or substantially all of its property;

(e) A Servicer shall admit in writing its inability to pay its debts generally as they become due, file a petition to take advantage of any applicable insolvency, bankruptcy or reorganization statute, make an assignment for the benefit of its creditors or voluntarily suspend payments of its obligations;

(f) A Servicer shall cease to be an Eligible Servicer;

(g) A material adverse change occurs in the financial condition of a Servicer, which change materially impairs the ability of the Servicer to perform its obligations under this Agreement; or

(h) Any representation or warranty made by a Servicer in any Transaction Document proves to have been incorrect in any material respect when made, which has a material adverse effect on the Noteholders and which continues to have a material adverse effect or be incorrect in any material respect for a period of thirty (30) days after written notice of such inaccuracy, requiring it to be remedied, has been given to the Servicers by the Trustee, the Supervisory Servicer or any Noteholder; provided, however, if such inaccuracy is of a nature that it cannot be remedied within such 30-day period and the Servicer gives notices to the Trustee and the Supervisory Servicer of the corrective action it proposes to take, which corrective action is agreed in writing by the Trustee to be satisfactory and the Servicer shall thereafter pursue such corrective action diligently until such default is cured but in no event longer than ninety (90) days from the date of such notice.

SECTION 6.2 NOTICE OF SERVICER DEFAULT. In the case of a Servicer Default referred to in Section 6.1 hereof or upon any termination of the Servicers pursuant to Article VII hereof, the Trustee shall immediately notify the Supervisory Servicer by telephone or telecopy (telephonic notice to be followed by written notice within one Business Day) and shall promptly notify the Rating Agency and the Holders in writing.

SECTION 6.3 REMEDIES. So long as any such Servicer Default shall not have been remedied within any applicable cure period, the Trustee may, and at the written direction of the Required Holders shall, by notice in writing specifying the termination date to the Servicers and the Supervisory Servicer (and to the Trustee if given by the Holders), terminate all of the rights and obligations of the Servicers under this Agreement and in and to the Loans and the proceeds thereof. On or after the receipt by the Servicers of such written notice, all authority and power shall pass to and be vested in the Supervisory Servicer pursuant to and under this Section; and, without limitation, the Supervisory Servicer is hereby authorized and empowered to execute and deliver, on behalf of the Servicers, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such notice of termination, whether to complete the purposes of such notice of termination, whether to complete the transfer and assignment of the Loans and related documents or otherwise. All reasonable costs and expenses (including, without limitation, attorneys' fees) of the Trustee, the Supervisory Servicer or the Servicers incurred in connection with such termination and transfer will be at the expense of the Servicers. The Servicers agree to cooperate with the Supervisory Servicer and the Trustee in effecting the termination of the Servicers' responsibilities and rights hereunder, including, without limitation, the transfer to the Supervisory Servicer for administration by it of any cash amounts held by the Servicers or thereafter received relating to the Loans and all Servicer Loan Files. In addition to any other amounts which are then, or, notwithstanding the termination of their activities as Servicers, may become payable to the Servicers under this Agreement, the applicable Servicer shall be entitled to receive out of any delinquent payment on account of interest on a Loan due during a Collection Period prior to the notice of termination received pursuant to this Section 6.3 and received after such notice, that portion of such payment which it would have received pursuant to Section 3.8 hereof if such notice had not been given.

SECTION 6.4 ADDITIONAL REMEDIES OF TRUSTEE UPON SERVICER DEFAULTS. Upon any Servicer Default, the Trustee, in addition to the rights specified in Section 6.3 hereof, shall have the right, in its own name and as Trustee, to take all actions now or hereafter existing at law, in

equity or by statute to enforce its rights and remedies and to protect the interests, and enforce the rights and remedies, of the Noteholders (including the institution and prosecution of all judicial, administrative and other proceedings and the filings of proofs of claim and debt in connection therewith). No remedy provided for by this Agreement shall be exclusive of any other remedy, and each and every remedy shall be cumulative and in addition to any other remedy and no delay or omission to exercise any right or remedy shall impair any such right or remedy or shall be deemed to be a waiver of any Servicer Default.

SECTION 6.5 SUPERVISORY SERVICER TO ACT; APPOINTMENT OF SUCCESSOR. On the effective date of any resignation of the Servicers pursuant to Section 7.1 hereof or on the date the Servicers are removed as servicer pursuant to this Article VI, the Supervisory Servicer (or any successor appointed by the Supervisory Servicer pursuant to the Supervisory Servicing Agreement) hereof shall be the successor in all respects to the Servicers in their capacity as servicers under this Agreement and the transactions set forth or provided for herein and shall be subject to all the responsibilities, duties and liabilities relating thereto placed on the Servicers by the terms and provisions hereof in accordance with and subject to the terms and conditions of the Supervisory Servicing Agreement; provided, however, that the Supervisory Servicer or successor Servicer shall not be liable for any acts or omissions of the Servicers occurring prior to such succession or for any breach by the Servicers of any of their representations or warranties contained herein or in any related document or agreement. The Supervisory Servicer (or other successor) shall assume all of the rights and obligations of the Servicers in accordance with the terms and conditions of the Supervisory Servicing Agreement which shall control over any provisions herein covering the same subject matter. The Servicers shall, upon request of the Trustee or the Supervisory Servicer but at the expense of the Servicers, deliver to the Supervisory Servicer (or other successor), all Servicer Loan Files, documents and records (including computer tapes and diskettes) relating to the Loans and an accounting of any amounts collected and held by the Servicers and otherwise use their reasonable efforts to effect the orderly and efficient transfer of servicing rights and obligations to the assuming party.

The Servicers agree to cooperate with the Trustee and the Supervisory Servicer or any other successor servicer in effecting the termination of the Servicers' servicing responsibilities and rights hereunder and shall promptly provide the Supervisory Servicer or such successor servicer, as applicable, all documents and records reasonably requested by it to enable it to assume the Servicers' functions hereunder and shall promptly also transfer to the Supervisory Servicer or such successor servicer, as applicable, all amounts which then have been or should have been deposited in the Lockbox Account by the Servicers or which are thereafter received with respect to the Loans. Neither the Trustee, the Supervisory Servicer nor any other successor servicer shall be held liable by reason of any failure to make, or any delay in making, any distribution hereunder or any portion thereof caused by (i) the failure of the Servicers to deliver, or any delay in delivering, cash, documents or records to it, or (ii) restrictions imposed by any regulatory authority having jurisdiction over the Servicers hereunder. The Supervisory Servicer shall provide written notice of each appointment of a successor to the Servicers hereunder, other than the Supervisory Servicer, to each Holder and the Rating Agency, and the Trustee.

SECTION 6.6 WAIVER OF DEFAULTS. The Trustee (with the written consent of the Required Noteholders and with notice to the Rating Agency) may, on behalf of all Noteholders, waive any events permitting removal of the Servicers as servicers pursuant to this Article VI.

Upon any waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto except to the extent expressly so waived.

ARTICLE 7
TERMINATION

SECTION 7.1 SERVICERS NOT TO RESIGN. The Servicers shall not assign this Agreement or resign from the obligations and duties hereby imposed on them except by mutual consent of the Servicers and the Trustee (with the Required Noteholders' consent), or upon the determination that the Servicers' duties hereunder are no longer permissible under applicable law and such incapacity cannot be cured by the Servicers. Any such determination permitting the resignation of the Servicers shall be evidenced by a Certificate of an Authorized Officer of the Servicers to such effect delivered to the Trustee, the Noteholders, the Supervisory Servicer and the Rating Agency. No such resignation shall become effective until a successor has assumed the Servicers' responsibilities and obligations hereunder in accordance with Section 6.5.

SECTION 7.2 TERM OF AGREEMENT. This Agreement shall continue in existence and effect until the earlier of (a) the later of the final payment or other liquidation of the last Loan or the disposition of all property acquired upon foreclosure or deed in lieu of foreclosure of any Loan and the remittance of all funds due thereunder, (b) the payment in full of the Notes in accordance with the Indenture, in addition to all other amounts payable thereunder, and the discharge of the Indenture in accordance with the terms thereof, or (c) mutual consent of the Servicers, the Trustee, the Supervisory Servicer and all Holders in writing.

ARTICLE 8
MISCELLANEOUS PROVISIONS

SECTION 8.1 AMENDMENT. This Agreement may be amended from time to time by the Servicers, the Issuer and the Trustee (acting at the written direction of the Required Noteholders) by written agreement, with thirty (30) days prior written notice to the Rating Agency and with prior written notice to and consent of the Supervisory Servicer. Notwithstanding the foregoing, this Agreement may be amended without the written direction of the Required Noteholders to modify any provisions of this Agreement required by the Rating Agency to maintain the rating of the Notes or to cure any ambiguity, defect, omission, conflict or inconsistency in this Agreement or between the terms of this Agreement and any other document executed or delivered in connection herewith. This Agreement may also be amended without the written direction of the Required Noteholders, so long as such amendment does not materially adversely affect the rights of the Noteholders.

SECTION 8.2 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.

SECTION 8.3 NOTICES. All demands, notices and communications hereunder shall be in writing and shall be duly given if addressed to the appropriate Notice Address and delivered by hand or sent by nationally recognized express courier, or mailed by registered mail, postage prepaid, or transmitted by telecopy, and shall be effective upon receipt, except when telecopied, in which case, any such communication shall be effective upon telecopy against receipt of answer back or written confirmation thereof.

SECTION 8.4 SEVERABILITY OF PROVISIONS. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be held invalid for any reason whatsoever, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions or terms of this Agreement. The parties hereto further agree that the holding by any court of competent jurisdiction that any remedy pursued by the Trustee hereunder is unavailable or unenforceable shall not affect in any way the ability of the Trustee to pursue any other remedy available to it.

SECTION 8.5 NO PARTNERSHIP. Nothing herein contained shall be deemed or construed to create a partnership or joint venture between the parties hereto, and the services of the Servicers shall be rendered as independent contractors and not as agents for the Trustee.

SECTION 8.6 COUNTERPARTS. This Agreement may be executed in one or more counterparts and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed to be an original; such counterparts, together, shall constitute one and the same agreement.

SECTION 8.7 SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the Servicers, the Issuer, the Supervisory Servicer and the Trustee and their respective successors and assigns.

SECTION 8.8 NOTIFICATION TO RATING AGENCY AND NOTEHOLDERS. The Trustee shall give prompt notice to the Rating Agency and the Noteholders of the occurrence of any of the following events of which it has received notice: (a) any modification or amendment to this Agreement, the Indenture or any other Transaction Documents, (b) any proposed removal, replacement, resignation or change of the Trustee or the Servicers, (c) any Event of Default under the Indenture or any Servicer Default and (d) the final payment in full of the Notes. Whenever the terms of this Agreement require that notice or reports be given to the Rating Agency or the Noteholders, the Person to provide such notice or reports shall first give them to the Trustee who shall provide them to the Rating Agency or the Noteholders, as applicable. Additionally, the Trustee, upon receipt, shall provide copies to the Rating Agency and the Noteholders of all compliance reports, Determination Date Reports, financial statements, operating reports, environmental reports and any and all other reports received by the Trustee from the Servicers, the Issuer or the Supervisory Servicer from time to time to the extent such reports have not been otherwise forwarded to the Rating Agency and the Noteholders pursuant to the provisions of this Agreement or the other Transaction Documents.

SECTION 8.9 INDULGENCES; NO WAIVERS. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a

waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

SECTION 8.10 TITLES NOT TO AFFECT INTERPRETATION. The titles of paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation hereof.

SECTION 8.11 ENTIRE AGREEMENT. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

SECTION 8.12 RECORDATION OF AGREEMENT. To the extent permitted by applicable law, this Agreement is subject to recordation in all appropriate public offices for real property records in all the counties or the comparable jurisdictions in which any Mortgaged Property is situated, and in any other appropriate public recording office or elsewhere, such recordation to be effected by the Servicers and at their expense upon the written request of the Trustee.

SECTION 8.13 FURTHER ASSURANCES Notwithstanding any other provision of this Agreement, neither Trustee nor the Supervisory Servicer shall have any obligation to consent to any amendment or modification of this Agreement unless it has been provided reasonable security or indemnity against its out-of-pocket expenses (including reasonable attorneys' fees) to be incurred in connection therewith by the person requesting the amendment. To the extent permitted by law, each Servicer agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such further instruments as the Trustee may reasonably request to effectuate the intention of or facilitate the performance of this Agreement.

[The immediately following page contains the signatures.]

IN WITNESS WHEREOF, the Issuer, the Servicers, the Supervisory Servicer and the Trustee have caused their names to be signed hereto by their respective officers thereunto duly authorized as of the day and year first above written.

PMC CAPITAL, INC., as a Servicer

By: /s/ JAN F. SALIT

Jan F. Salit
Executive Vice President

PMC COMMERCIAL TRUST, as a Servicer

By: /s/ JAN F. SALIT

Jan F. Salit
Executive Vice President

BNY MIDWEST TRUST COMPANY,
as Trustee

By: /s/ ROBERT D. FOLTZ

Robert D. Foltz
Vice President

BNY MIDWEST TRUST COMPANY,
as Supervisory Servicer

By: /s/ ROBERT D. FOLTZ

Robert D. Foltz
Vice President

PMC JOINT VENTURE, L.P. 2001,
as Issuer

By: PMC Joint Venture LLC 2001
Its General Partner

By: /s/ JAN F. SALIT

Jan F. Salit
Executive Vice President

EXHIBIT 10.2

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TRUST INDENTURE

BETWEEN

PMC JOINT VENTURE, L.P. 2001,
A DELAWARE LIMITED PARTNERSHIP

AND

BNY MIDWEST TRUST COMPANY,
AS TRUSTEE

DATED AS OF JUNE 26, 2001

$75,378,920
PMC JOINT VENTURE, L.P. 2001
LOAN-BACKED FIXED RATE NOTES

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TRUST INDENTURE

THIS TRUST INDENTURE (this "INDENTURE") is made and entered into as of June 26, 2001 by and between PMC JOINT VENTURE, L.P. 2001, a Delaware limited partnership (the "ISSUER"), and BNY MIDWEST TRUST COMPANY, an Illinois state banking corporation, as trustee (the "TRUSTEE"), who did declare that they have made and entered into, and do hereby make, enter into and effect, a Trust Indenture under the following terms and conditions,

WITNESSETH:

WHEREAS, pursuant to its Limited Partnership Agreement and the applicable provisions of Delaware law, the Issuer is authorized to issue notes secured as provided herein and to enter into any agreements made in connection therewith; and

WHEREAS, the Issuer is hereby issuing its Loan-Backed Fixed Rate Notes (collectively, the "NOTES") and will use the proceeds from the sale of the Notes to effect a pro rata distribution to its partners and deposit funds into the Spread Account (as defined herein); and

WHEREAS, the Issuer has authorized the issuance of the Notes pursuant to and secured by this Indenture and the execution of this Indenture to secure the Notes by a pledge of the Loans (as defined herein) and moneys held by the Trustee; and

WHEREAS, upon satisfaction of certain requirements contained herein and simultaneously with the authentication and delivery of the Notes, the Issuer will deliver and pledge the Loans to the Trustee to secure the obligations of the Issuer under the Notes and hereunder, and the Trustee is instructed to accept the deposit of the Loans from the Issuer, fund the Spread Account and to release the net proceeds of the Notes to the Issuer.

NOW, THEREFORE, THIS TRUST INDENTURE
WITNESSETH:

GRANTING CLAUSES

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Notes by the Holders thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, to secure the payment of the principal of and interest, when due, on the Notes according to their tenor and effect and to secure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Notes, does hereby irrevocably pledge, set over and grant a security interest (which security interest is hereby represented and warranted by the Issuer to be a first priority perfected security interest) in and unto the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the Issuer hereinafter set forth, all right, title and interest of the Issuer in, to and under:

(a) the Loans, the Related Assets and any REO Property, including all payments with respect thereto (other than the Prepayment Penalties) and escrow deposits

and fees, if any, and any interest, profits and other income derived from the investment thereof and any and all insurance policies and Loan Files related thereto;

(b) any moneys or investments held or entitled to be held by the Trustee under this Indenture, including, without limitation, moneys held in the Collection Account and the Spread Account, any investments therein and the security entitlements to all financial assets credited thereto from time to time, and the interest, profits and other income derived from the investment thereof;

(c) all right, title and interest of the Issuer in, to and under the Servicing Agreement, the Contribution Agreement and the other Transaction Documents, including all extensions and renewals of their terms, if any, including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect and receive any income, revenues, receipts, issues, profits, insurance proceeds and other sums of money payable to or receivable by the Issuer under the Servicing Agreement, the Contribution Agreement or the other Transaction Documents, whether payable pursuant to the Servicing Agreement, the Contribution Agreement or the other Transaction Documents, or otherwise, to bring actions and proceedings under the Servicing Agreement, the Contribution Agreement or the other Transaction Documents or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do under the Servicing Agreement, the Contribution Agreement or the other Transaction Documents;

(d) any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Issuer, or by anyone on its behalf or with its written consent, to the Trustee which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof; and

(e) all proceeds of the above, and any proceeds thereof.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit and security of all present and future Holders of the Notes without preference of any Note over any other, and for enforcement of the payment of the Notes in accordance with their terms, and all other sums payable hereunder or on the Notes and for the performance of and compliance with the obligations, covenants and conditions of this Indenture, as if all the Notes at any time outstanding had been authenticated, executed and delivered simultaneously with the execution and delivery of this Indenture, all as herein set forth;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall indefeasibly pay, or cause to be paid, the principal of and interest on the Notes due or to become due thereon, at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article V hereof, or shall

provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire amount due or to become due thereon, and shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee and any paying agent all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby and thereby granted shall cease, determine and be void; otherwise this Indenture is to be and remain in full force and effect;

AND PROVIDED, FURTHER, the Trustee agrees to accept receipt of the Loans and the Trustee Loan Files, and declares that it holds and will hold for the benefit of the Noteholders such documents and the other documents constituting a part of the Loans and the Trustee Loan Files delivered to it as the Trustee upon the terms stated herein.

THIS TRUST INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Notes issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Holders, from time to time or at any time, of the Notes, or any part thereof, as follows:

ARTICLE I

DEFINITIONS

All capitalized terms used herein and not otherwise defined herein shall have the same meanings as set forth in Schedule 1 attached hereto.

ARTICLE II

THE NOTES

2.1 AUTHORIZED AMOUNT OF NOTES. No Notes may be issued under the provisions of this Indenture, except in accordance with this Article. Except as provided in Sections 2.8 and 2.9 hereof, the total principal amount of Notes that may be issued is hereby expressly limited to $75,378,920.

2.2 ISSUANCE OF NOTES; DENOMINATIONS; FORM OF NOTES. (a) The Notes shall be designated the "PMC Joint Venture, L.P. 2001 Loan-Backed Fixed Rate Notes" and shall be issued in an initial aggregate principal amount equal to $75,378,920.

The Notes shall mature on the Maturity Date, and shall accrue interest during each Interest Accrual Period at the Applicable Remittance Rate. The Notes shall also accrue interest on the unpaid principal and, to the extent permitted by applicable law, accrued interest to the extent that such amount has not been distributed to the Noteholders when due at the Default Rate. The Notes shall be non-recourse to the Issuer's partners and neither the Trustee nor the Noteholders shall have any right to enforce the payment or performance of the Issuer's

obligations under this Indenture and the Notes against the partners of the Issuer or their respective assets.

(b) The Notes will be issued as registered Notes without coupons in minimum denominations of $250,000 and integral multiples of $1,000 in excess thereof. One (1) Note may be issued in an additional amount equal to the remainder of the aggregate stated principal balance of the Notes on the Closing Date.

(c) The Notes issued under this Indenture shall be substantially in the form set forth in Exhibit A hereto with such variations, omissions and insertions as are permitted or required thereby and hereby.

2.3 [INTENTIONALLY OMITTED.]

2.4 EXECUTION. The Notes shall be executed on behalf of the Issuer with the signature of any Authorized Officer of the General Partner and attested by the signature of the Secretary or Assistant Secretary of the General Partner. In case any officer of the General Partner of the Issuer whose signature shall appear on the Notes shall cease to be such officer before the delivery of such Notes, such signature shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery.

The Notes are negotiable instruments (subject to compliance with applicable Securities Laws) and shall be solely the obligations of the Issuer.

2.5 AUTHENTICATION. No Note shall be valid or obligatory for any purpose or entitled to any security or benefit under this Indenture unless and until a certificate of authentication on such Note shall have been duly executed by the Trustee by manual signature, which execution shall be at the written direction of the Issuer, and such executed certificate of the Trustee upon any such Note shall be conclusive evidence that such Note has been authenticated and delivered under this Indenture. The Trustee's certificate of authentication on any Note shall be deemed to have been executed by it if signed by an Authorized Officer or signatory of the Trustee, but it shall not be necessary that the same officer or signatory sign the certificate of authentication on all of the Notes issued hereunder. Except as provided in Sections 2.8 and 2.9(d), all Notes shall be dated the date of their authentication.

2.6 DELIVERY OF NOTES AND RECEIPT OF LOANS. (a) After the execution and delivery of this Indenture, the Issuer shall execute and deliver to the Trustee, and the Trustee shall authenticate, the Notes and deliver the Notes to the Initial Purchasers, for the purchase price specified by the Issuer, as hereinafter in this Section provided.

Simultaneously with or prior to the delivery by the Trustee of all of the Notes and the disbursement of a portion of the net proceeds of the issuance of the Notes, there shall be received by the Trustee:

(i) A copy, duly certified by the General Partner of the Issuer, of each of the resolutions of the board of directors of the General Partner and the Issuer authorizing the issuance of the Notes and the execution and delivery of this Indenture;

(ii) An original executed counterpart of each Transaction Document;

(iii) A request and authorization to the Trustee on behalf of the Issuer and signed by the General Partner of the Issuer to authenticate and deliver such series of Notes to the purchasers therein identified upon payment to the Trustee, but for the account of the Issuer, of a sum specified in such request and authorization. The proceeds of such payment shall be paid over to the Trustee and deposited as required by such request and authorization in the various funds specified in, and pursuant to Article VI hereof;

(iv) An Opinion of Counsel, satisfactory in form and scope to the Initial Purchasers, that the Notes constitute debt of the Issuer for federal income tax purposes;

(v) The documents with respect to the Loans described in the Loan Schedule in accordance with paragraph (b) below;

(vi) A letter from Moody's, indicating that the Notes have been rated at least "Aaa";

(vii) Certified copies of resolutions, organizational documents, bylaws and incumbency certificates for PMC, PMCT, the Issuer and the General Partner of the Issuer;

(viii) Opinions of Issuer's counsel, satisfactory in form and scope to the Initial Purchaser, addressed to, among others, the Trustee and the Noteholders to the effect that, among other things, and based upon the qualifications, assumptions and reasoning stated therein:

(A) The contribution and assignment of the Loans (and related rights) by PMC and PMCT to the Issuer (1) constitute a "true sale" and will result in the Loans not being deemed property of PMC's or PMCT's estate pursuant to Section 541 of the Bankruptcy Code (and based upon lien search reports, there is no public record of any prior UCC financing statements covering such Loans, other than by entities which have executed a UCC termination statement or other appropriate agreement(s) indicating the release of their security interests, or any notice of any federal tax lien), and (2) based upon lien search reports, the Trustee has a valid first priority perfected security interest in such Loans and the Related Assets as security for the Notes (and based upon lien search reports, there is no public record of any prior UCC financing statements covering such Loans, other than by entities which have executed a UCC termination statement or other appropriate agreement(s) indicating the release of their security interests, or any notice of any federal tax lien); and

(B) in the event of a bankruptcy of PMC, PMCT or the General Partner of the Issuer, the assets and liabilities of the Issuer would not be substantively consolidated with the assets and liabilities of PMC, PMCT or the General Partner, as applicable.

(ix) Copies of properly prepared and executed financing statements in sufficient form for filing, naming (A) PMC or PMCT, as the case may be, as seller, the Issuer as purchaser, and the Trustee as assignee of the purchaser to reflect the conveyance of the Loans to the Issuer, and (B) the Issuer as debtor and the Trustee as secured party, covering the Issuer's

interest in the Trust Estate, as may be necessary or desirable to perfect the security interest of the Trustee (for the benefit of the Noteholders) in the Issuer's interest in the Trust Estate and copies of properly prepared and executed releases in sufficient form for filing, indicating the release of any security interest by any third party in such assets; and

(x) Copies of UCC and tax and judgment lien search reports against PMC and PMCT.

Any of the foregoing statements which are not, as of the Closing Date, properly filed in the appropriate office as necessary to evidence the conveyance of the Loans to the Issuer or perfect the security interest of the Trustee (for the benefit of the Noteholders) in the Issuer's interest in the Trust Estate or to effect the release of any security interest held by any third party in such assets shall be mailed on the Closing Date by overnight mail to the jurisdictions in which such statements are to be filed.

(b) In connection with the transfer and assignment of the Loans to the Trustee, the Issuer does hereby deliver to, and deposit with, or cause to be delivered to and deposited with, the Trustee the following documents or instruments with respect to each Loan so transferred and assigned (hereinafter referred to as the "TRUSTEE LOAN FILE"):

(i) the original Underlying Note showing a complete chain of endorsement from the originator to the current holder (if other than the originator) and endorsed by the originator or current holder by means of an allonge as follows: "Pay to the order of [BNY Midwest Trust Company], as Trustee under the Trust Indenture, dated as of June 26, 2001, for the benefit of the holders of PMC Joint Venture, L.P. 2001 Loan-Backed Fixed Rate Notes, without recourse";

(ii) either: (A) the original Mortgage with evidence of recording thereon, (B) with respect to a Loan for which the original Mortgage was not returned after recordation, a copy of the Mortgage certified by the appropriate recording officer to be true and accurate, or (C) with respect to a Loan for which the original Mortgage has been sent to the appropriate public official for recording and with respect to which a certified copy of the Mortgage is not available from such public official, a copy of the Mortgage certified as a true copy by an Authorized Officer of the Issuer;

(iii) either: (A) the original executed assignments of the Mortgage (which may be in the form of a blanket assignment in which case the Issuer shall execute and deliver to the Trustee within six (6) months of the Closing Date an original assignment of each Mortgage), showing a complete chain of assignment from the originator to the current assignee (if other than the originator) and acceptable for recording in the jurisdiction in which the applicable Mortgaged Property is located, and from the originator or current assignee in the following form: ["BNY Midwest Trust Company], as the Trustee under the Trust Indenture, dated as of June 26, 2001" or (B) copies of such assignments certified as true copies by an Authorized Officer of the Issuer where the original of such assignment has been transmitted for recording, which such certification may be in the form of one or more blanket certificates;

(iv) the original of each assumption, modification, written assurance or substitution agreement, if any;

(v) either (i) originals of any title insurance policies relating to the Mortgaged Properties or (ii) copies of any title insurance policies certified as true by PMC or PMCT, as applicable;

(vi) for all Loans, a blanket assignment of all collateral securing the Loan, including without limitation, all rights under applicable guarantees and insurance policies;

(vii) for all Loans, an irrevocable power of attorney from PMC or PMCT, as applicable, to the Trustee, delegable by the Trustee to the Servicer and any successor servicer, to execute, deliver, file or record and otherwise deal with the collateral for the Loans in accordance with the Contribution Agreement and to prepare, execute and file or record UCC financing statements and notices to insurers; and

(viii) for all Loans, a blanket UCC-1 financing statement describing the Loans and identifying by type all collateral for the Loans in the Loan Pool and naming the Trustee as Secured Party and the Issuer as Debtor, such UCC-1 to be filed promptly following the Closing Date in the office of the Secretary of State of Texas.

The Issuer will cause to be recorded or filed each assignment of a Loan to the Trustee in the appropriate public office for real property records within six (6) months after the Closing Date to protect the Trustee's interest in the Loans against sale, further assignments, satisfaction or discharge by the Servicer, PMC, PMCT, the Issuer or any third party. The Issuer shall confirm the recordation or filing of the assignments of the Loans in writing to the Trustee and the Noteholders within thirty (30) days following such six (6) month period.

For Loans which have been prepaid in full after the Cut-Off Date and prior to the Closing Date, the Issuer, in lieu of delivering the above documents, and with respect to all Monthly Payments received after the Cut-Off Date, herewith delivers to the Trustee an Officers' Certificate to the effect that all amounts received in connection with such payments which are required to be deposited in the Lockbox Account have been so delivered to the Trustee and indicating the amount of any payment received with respect to each such Loan.

With respect to Loans for which the original Mortgage and related assignment have been sent to the appropriate public official for recording, the Issuer shall provide the original Mortgage and related assignments to the Trustee promptly upon receipt from the public official after recording. Within six (6) months after the Closing Date, the Trustee shall certify that all such original Mortgages and related assignments have been received and, if not, shall, upon prior written consent of the Initial Purchaser, demand repurchase of the related Loan pursuant to Section 3.3.

(c) The Trustee, by execution and delivery hereof, subject to the next preceding paragraph and the last paragraph of this Section, acknowledges receipt of the documents and other property referred to in and required to be delivered pursuant to this Section 2.6 and declares that the Trustee holds and will hold all other property to be received pursuant to this Indenture, in trust, for the benefit of all Holders.

The Trustee further acknowledges that it has also received a certificate from the Supervisory Servicer, a copy of which has been provided to the Rating Agency, to the effect that, as to each Loan listed in the Loan Schedule, (i) all documents constituting part of such Trustee Loan File required to be delivered to the Trustee pursuant to this Indenture have been delivered to the Trustee, (ii) such documents have been reviewed by it as to form and appear to have been properly executed and regular on their face, purport to be recorded or filed (as applicable), have not been torn, mutilated or otherwise defaced and relate to such Loan and (iii) based on its examination and only as to the foregoing, the information set forth in the Loan Schedule accurately reflects information set forth in the Trustee Loan File, except for exceptions detailed on the exhibit attached to such list. In performing such review, the Supervisory Servicer may rely upon the purported genuineness and due execution of any such document and on the purported genuineness of any signature thereon. If at any time the Trustee finds any document or documents constituting a part of a Trustee Loan File to be defective, or to be unrelated to the Loans identified on the Loan Schedule, the Trustee shall promptly so notify the Noteholders, the Issuer, the Servicer, the Rating Agency, PMCT and PMC, and the Trustee, as assignee under the Contribution Agreement, shall make written demand upon PMC or PMCT, as applicable, to comply with its obligation under Section 8 of the Contribution Agreement and shall send copies of such written demand to the Noteholders, the Issuer, the Servicer and the Rating Agency. If PMC or PMCT, as applicable, fails to comply with such obligation, the Trustee will give prompt written notice to the Noteholders, the Supervisory Servicer and the Rating Agency and the Trustee shall take such reasonable action as the Required Noteholders direct in writing, at the expense of the Servicer if the Servicer is an Affiliate of the Issuer.

2.7 PAYMENTS OF PRINCIPAL OF AND INTEREST ON NOTES. (a) The person in whose name any Note is registered as of a Record Date with respect to a Payment Date shall be entitled to receive the interest and principal payable on such Payment Date notwithstanding the cancellation of such Note upon any registration of transfer or exchange thereof subsequent to such Record Date and prior to such Payment Date.

(b) The Notes shall bear interest from and including the Closing Date. In all cases, interest shall be calculated on the basis of a 30-day month and a 360-day year. Interest accrued on the Notes during an Interest Accrual Period will be due and payable on the related Payment Date.

Subject to the foregoing provisions of this Section, each Note delivered under this Indenture upon transfer of or exchange for or in lieu of any other Note shall carry the rights to interest due and unpaid, and to become due, which were carried by such other Note.

(c) Principal payments on the Notes shall be made on each Payment Date as provided in Section 6.4 hereof. Principal payments on the Notes shall be applied pro rata to all Notes.

(c) Payments to each Holder shall be made by check mailed to such Holder's address as it appears on the Note Register on the relevant Record Date (or, in the case of any Holder of Notes having an aggregate initial principal amount of not less than $1,000,000, by wire transfer of immediately available funds to the account of such Noteholder and without presentation of the Note or the making of any notations thereon, if such Noteholder shall have

given the Trustee appropriate written notice of such account, and changes (if any) to such instructions at least five (5) Business Days prior to the Record Date immediately preceding the Payment Date).

2.8 MUTILATED, LOST, STOLEN OR DESTROYED NOTES. In the event any Note is mutilated, lost, stolen or destroyed, upon receipt by the Trustee of evidence reasonably satisfactory to it of the ownership of the Note and in the absence of notice to the Trustee that such Note has been acquired by a bona fide purchaser, the Issuer shall execute and the Trustee shall authenticate and deliver a new Note executed in the same manner as the Note being replaced, in the same principal amount as the unpaid principal amount of such Note and dated the date to which interest shall have been paid on such Note or, if no interest shall have yet been so paid, dated the date of such Note, provided that, in the case of any mutilated Note, such mutilated Note shall first be surrendered to the Trustee, and, in the case of any lost, stolen or destroyed Note, there shall be first furnished to the Trustee and the Issuer evidence of such loss, theft or destruction reasonably satisfactory to the Trustee, together with any indemnity satisfactory to each of them. Further, in the case of a past due or a matured, lost, stolen or destroyed Note, the Trustee shall pay the face amount of such past due or matured Note upon delivery to the Trustee of evidence of such loss, theft or destruction reasonably satisfactory to the Trustee, together with any indemnity satisfactory to each of them. Upon the execution of any new Note under this Section 2.8, the Trustee may require the Holder to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. Any new Note issued pursuant to this Section 2.8 shall constitute complete and indefeasible evidence of ownership of the Note, as if originally issued, whether or not the lost, stolen or destroyed Note shall be found at any time.

2.9 REGISTRATION AND EXCHANGE OF NOTES; PERSONS TREATED AS HOLDERS; RESTRICTIONS ON TRANSFERS OF NOTES. (a) The Issuer shall cause books for the registration and for the transfer of the Notes as provided in this Indenture to be kept by the Trustee, who is hereby appointed as the initial Registrar. The Trustee hereby accepts its appointment as initial Registrar and shall maintain the Note Register. The Registrar may resign or be discharged or removed and a new successor appointed in accordance with the procedures and requirements set forth in Article X hereof with respect to the resignation, discharge or removal of the Trustee and the appointment of a successor Trustee. The Registrar may appoint, by a written instrument delivered to the Issuer, the Trustee, the Supervisory Servicer, the Noteholders, the Servicer and the Holders, any other bank or trust company to act as co-registrar under such conditions as the Registrar may prescribe, provided that the Registrar shall not be relieved of any of its duties or responsibilities hereunder by reason of such appointment. The ownership of Notes shall be proved by the Note Register. The Trustee will keep on file at the Corporate Trust Office of the Trustee a list of names and addresses of the owners of all Notes as shown on the Register maintained by the Trustee as Registrar.

At reasonable times and under reasonable regulations established by the Trustee, the Note Register may be inspected and copied by the Issuer, the Supervisory Servicer or any Holder (or a designated representative thereof).

(b) Prior to presentation of any Note for registration of transfer, the Issuer and the Trustee shall treat the Person in whose name such Note is registered as the owner and holder

of such Note for all purposes whatsoever, whether or not such Note shall be overdue, and the Issuer and the Trustee or their agents shall not be affected by notice to the contrary.

(c) No transfer or sale of any Note shall be made unless the registration requirements of the Securities Act of 1933, as amended (the "ACT"), and any applicable state securities laws are complied with, or such transfer or sale is exempt from the registration requirements under said Act and laws. In the event that a transfer of any Note is to be made, the Trustee shall require the Holder of such Note to deliver, at its expense, a certificate in the form of Exhibit D-1 or Exhibit D-2 hereto, as the case may be, or a certificate otherwise reasonably acceptable to and in form and substance reasonably satisfactory to the Trustee that such transfer is being made pursuant to an exemption, describing the applicable exemption and the basis therefor, from said Act and laws or is being made pursuant to said Act and laws. If a certificate is not in the form of either Exhibit D-1 or Exhibit D-2 hereto, the Trustee may request an Opinion of Counsel (which counsel may be in-house counsel of the transferor or transferee) to establish compliance with such Act or laws. The Opinion of Counsel shall not be an expense of the Trustee or the Issuer. Neither the Issuer nor the Trustee is under an obligation to register any such Note under said Act or any other Securities Law. Any transfer under this Section 2.9(c) that is not exempt from the registration requirements under the Act or applicable state securities laws or if the transfer is not conducted in accordance with such laws shall be null and void. In the event that any Note is transferred to a transferee which is using funds to purchase the Note which such funds constitute assets of one or more employee benefit plans, such transferee shall advise the Issuer in writing of such source of funds and the Issuer shall advise such transferee in writing whether the Issuer is or is not a party in interest with respect to any employee benefit plan disclosed to the Issuer by such transferee. As used in this Section, the terms "party-in-interest" and "employee benefit plan" shall have the respective meanings assigned to them in ERISA.

(d) The holder of any Note, at its option, may in person or by duly authorized attorney surrender the same for exchange at the Corporate Trust Office and promptly thereafter and at the Issuer's expense, except as provided in Section 2.9(e), receive in exchange therefor a new Note or Notes, each in the denomination requested by such Holder (but not less than $250,000, or, if such Holder shall be a Holder of less than $250,000 in aggregate principal amount of Notes, such lesser amount), dated the date to which interest shall have been paid on the Note so surrendered or, if no interest shall have yet been so paid, dated the date of the Note so surrendered and registered in the name of such Person or Persons as shall have been designated in writing by such Holder or its attorney for the same principal amount as the then unpaid principal amount of the Note so surrendered. Upon surrender for transfer of any Note at the Corporate Trust Office of the Trustee, the Trustee shall authenticate and deliver (upon satisfaction of the conditions stated above) in the name of the transferee or transferees a new Note or Notes of authorized denomination for the aggregate principal amount entitled to be received by such transferee or transferees. Notes to be exchanged shall be surrendered at the Corporate Trust Office of the Trustee and the Trustee shall authenticate and deliver in exchange therefor the Note or Notes which the Noteholder making the exchange shall be entitled to receive (upon satisfaction of the conditions stated above).

(e) All Notes presented for transfer, exchange, registration, discharge from registration, redemption or payment (if so required by the Issuer or the Trustee) shall be

accompanied by a written instrument or instruments of transfer or authorization for exchange, in form (and with guaranty of signature) reasonably satisfactory to the Issuer and the Trustee, duly executed by the registered Holder or by its duly authorized attorney.

Notes shall be transferred or exchanged without cost to the Noteholder, except for any stamp or other tax or governmental charge required to be paid with respect to such transfer or exchange.

(f) New Notes delivered upon any transfer or exchange shall be valid obligations of the Issuer, evidencing the same debt as the Notes surrendered, shall be secured by this Indenture and shall be entitled to all of the security and benefits hereof to the same extent as the Notes surrendered.

2.10 DESTRUCTION OF NOTES. If any Outstanding Note shall be delivered to the Trustee for cancellation pursuant to this Indenture, upon payment of the final principal amount and interest with respect to the Note represented thereby, or for replacement pursuant to Section 2.8 hereof or transfer or exchange pursuant to Section 2.9 hereof, such Note shall be canceled and destroyed by the Trustee and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Trustee to the Issuer.

ARTICLE III

REPRESENTATIONS AND WARRANTIES; SUBSTITUTION OF LOANS

3.1 REPRESENTATIONS AND WARRANTIES OF ISSUER. The Issuer represents and warrants to the Trustee for the benefit of the Noteholders as follows:

(a) the Issuer is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware and has full power to own its property, to carry on its business as presently conducted, to enter into and perform its obligations under this Indenture and the other Transaction Documents, and to create the trusts created pursuant hereto;

(b) the execution and delivery by the Issuer of the Transaction Documents have been duly authorized by all necessary action on the part of the Issuer;

(c) neither the execution and delivery of the Transaction Documents by the Issuer, nor the consummation of the transactions herein or therein contemplated, nor compliance by the Issuer with the provisions hereof or thereof, will conflict with or result in a breach of, or constitute a default under, any of the provisions of the partnership agreement of the Issuer or conflict with, result in a breach or violation of or constitute a default under, the terms of any indenture or other agreement or instrument to which the Issuer is a party or by which the Issuer is bound, or any statute, order or regulation applicable to the Issuer of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Issuer;

(d) the execution, delivery and performance by the Issuer of the Transaction Documents and the consummation of the transactions contemplated hereby do not require the consent or approval of, the giving of notice to, the registration with, or the taking of any other

action in respect of, any state, federal or other governmental authority or agency, except for such consents or approvals which have been obtained on or before the Closing Date;

(e) each Transaction Document has been duly executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the other parties thereto, constitutes a legal, valid and binding obligation of the Issuer enforceable against it in accordance with its terms (subject to applicable bankruptcy and insolvency laws and other similar laws affecting the enforcement of the rights of creditors generally and general principles of equity);

(f) there are no actions, suits or proceedings pending or, to the knowledge of the Issuer, threatened or likely to be asserted against or affecting the Issuer, before or by any court, administrative agency, arbitrator or governmental body (i) with respect to any of the transactions contemplated by the Transaction Documents or (ii) with respect to any other matter which, in the reasonable judgment of the Issuer will be determined adversely to the Issuer and will, if determined adversely to the Issuer, materially and adversely affect it or its business, assets, operations or condition, financial or otherwise, or materially and adversely affect its ability to perform its obligations under the Transaction Documents. The Issuer is not in default with respect to any order of any court, administrative agency, arbitrator or governmental body so as to materially and adversely affect the transactions contemplated by the Transaction Documents;

(g) as of the Closing Date, the Issuer had good title to, and was the sole owner of, each Loan and any other asset included in the Trust Estate free and clear of all Liens, and, immediately upon the transfer and assignment herein contemplated and taking possession of the Trustee Loan File, the Trustee shall have a first priority perfected security interest in the Trust Estate free and clear of all Liens; and

(h) the Issuer acquired title to the Loans in good faith, without notice of any adverse claim.

3.2 REPRESENTATIONS AND WARRANTIES WITH RESPECT TO LOANS. (a) The Issuer hereby represents and warrants to the Trustee for the benefit of the Noteholders as of the date hereof with respect to each Loan as follows:

(i) Immediately prior to the collateral assignment of the Loan to the Trustee, the Issuer had good title to, and was the sole owner of, the Loan free and clear of all Liens. Except for the Issuer, no Person other than PMC or PMCT, as the case may be, and the Trustee has any interest in the Mortgage, whether as mortgagee, assignee, pledgee or otherwise. Immediately upon the collateral assignment of the Loan and taking possession thereof, the Trustee will have a first priority perfected security interest in each Loan, free and clear of all Liens.

(ii) The Loan was originated in the United States, in a state where the originator of such Loan, is qualified to transact such business, in the ordinary course of its business, except to the extent that any failure to be so qualified would not adversely affect the Loan or the Mortgage or the transfer thereof or the enforceability of the Obligor's obligations thereunder. PMC or PMCT, as the case may be, acquired title to the Loans in good faith, without notice of any adverse claim.

(iii) The Loan has not been originated in, nor is such Loan subject to the laws of, any jurisdiction under which the transfer and assignment of such Loan to the Issuer would be unlawful, void or voidable.

(iv) The information set forth in the Loan Schedule is true and correct in all material respects.

(v) The terms of the Underlying Note and the Mortgage have not been impaired, waived, altered or modified in any respect, except by written instruments, executed in accordance with the customary credit policies of PMC or PMCT, as the case may be, which are reflected on the Loan Schedule. No Obligor has been released, in whole or in part, except pursuant to the terms of an assumption agreement which is part of the related Loan File and the terms of which are reflected in the Loan Schedule.

(vi) The Underlying Note and the related Mortgage are not subject to any right of rescission, setoff, abatement, diminution, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the Underlying Note or the Mortgage, or the exercise of any right thereunder in accordance with the terms thereof, render the Mortgage unenforceable, in whole or in part, or subject to any right of rescission, setoff, abatement, diminution, counterclaim or defense, including the defense of usury, and no such right of rescission, setoff, abatement, diminution, counterclaim or defense has been asserted with respect thereto.

(vii) The Mortgage has not been satisfied, canceled or subordinated, in whole or in part, or rescinded, and except as reflected on the Loan Schedule, the Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would effect any such release, cancellation, subordination or rescission.

(viii) The Underlying Note and the Mortgage delivered to the Trustee are genuine originals (except where certified copies of the Mortgage have been delivered in accordance with this Indenture) and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms.

(ix) There has been no fraud, dishonesty, misrepresentation or negligence on the part of the Issuer, the Independent Managers or the General Partner or, to the Issuer's knowledge, on the part of the originator, PMC, PMCT or the Obligor in connection with the origination of any Loan or in connection with the transfer and assignment of such Loan to the Issuer.

(x) As of the Closing Date, there was no material default, breach, violation or event of acceleration existing under the Mortgage or the Underlying Note and no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute such a default, breach, violation or event of acceleration, and since the Cut-off Date the Issuer had not waived any such default, breach, violation or event of acceleration.

(xi) The Mortgage and the Underlying Note comply with all requirements of applicable federal, state and local laws and regulations. The origination and servicing of the Loan and the assignment of the Loan comply with any and all applicable requirements of any applicable federal, state or local law, including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity and disclosure laws. To the Issuer's knowledge, each Mortgaged Property is in compliance in all material respects with all applicable laws, zoning ordinances, rules, covenants and restrictions affecting the construction, occupancy, use and operation of such Mortgaged Property. To the Issuer's knowledge, all inspections, licenses and certificates required, including certificates of occupancy, whether by law, ordinance, regulation or insurance standards to be made or issued with regard to the Mortgaged Property, have been obtained and are in full force and effect.

(xii) To the Issuer's knowledge, each Loan was originated or purchased in accordance with PMCT's or PMC's standard mortgage, underwriting, origination and lending procedures. To the Issuer's knowledge, no adverse selection criteria were utilized by PMC, PMCT or the Issuer in selecting the Loans for inclusion in this transaction.

(xiii) No Loan is a 30-Day Delinquent Loan.

(xiv) The Issuer has not advanced funds or induced, solicited or knowingly received any advance of funds from a party other than the owner of the Mortgaged Property subject to the Mortgage, directly or indirectly, for the payment of any amount required by the Loan.

(xv) To the Issuer's knowledge, there are no delinquent taxes, ground rents, water charges, sewer rents, assessments (including assessments payable in future installments) or other outstanding charges affecting the related Mortgaged Property.

(xvi) The Mortgaged Property is located in the state indicated on the Loan Schedule, and, except as reflected on the Loan Schedule, consists of a single parcel of real property. The Mortgaged Property is in good repair, is free of damage and waste that would materially and adversely affect its value and such Mortgaged Property has not been materially damaged by fire, wind or other cause, which damage has not been fully repaired or for which insurance proceeds have not been received or are not expected to be received in an amount sufficient to pay for such repairs.

(xvii) The Mortgage is a valid, subsisting and enforceable first lien on the Mortgaged Property, including all buildings on the Mortgaged Property and all fixtures related thereto, and all additions, alterations and replacements made at any time with respect to the foregoing, except as reflected on the Loan Schedule. Such lien is subject only to (1) the lien of current real property taxes and assessments not yet due and payable, (2) covenants, conditions and restrictions, rights-of-way, easements and other matters of the public record as of the date of recording, none of which individually or in the aggregate materially interfere with the benefits of the security intended to be provided by the Mortgage or the operation and use of the related Mortgaged Property, and (3) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the

Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property. Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Loan establishes and creates a valid, subsisting and enforceable first lien and first priority security interest on the property described therein, except as reflected on the Loan Schedule. Except as reflected on the Loan Schedule, the Underlying Note is not secured by any collateral except the lien of the corresponding Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in this paragraph.

(xviii) The Mortgage contains provisions for the acceleration of the payment of the unpaid principal balance of the Loan in the event the related Mortgaged Property is sold without the prior written consent of the Mortgagee thereunder.

(xix) The Issuer has no knowledge of any mechanics' or similar liens or claims which have been filed for work, labor or material (or any rights outstanding that under applicable law could give rise to such lien) affecting the Mortgaged Property which are or may be liens prior to, or equal or on parity with, the lien of the Mortgage.

(xx) The proceeds of the Loan have been fully disbursed and there is no requirement for future advances thereunder, and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with.

(xxi) There is no proceeding pending for the total or partial condemnation of the Mortgaged Property.

(xxii) The Mortgage contains customary provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby, including, (1) in the case of a Mortgage designated as a deed of trust, by trustee's sale and (2) otherwise by judicial foreclosure or power of sale. To the Issuer's knowledge, there is no homestead or other exemption available to the Obligor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage.

(xxiii) In the event the Mortgage constitutes a deed of trust, a trustee, duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in the Mortgage, and no fees or expenses are or will become payable by the Issuer or its assignees to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Obligor.

(xxiv) The Loan is an Eligible Loan as of the Closing Date.

(xxv) The form of endorsement of each Underlying Note satisfies the requirement, if any, of endorsement in order to transfer all right, title and interest of the party so endorsing, as noteholder or assignee thereof, in and to that Underlying Note, and each form of assignment is in recordable form and is sufficient to effect the assignment of and to transfer to the assignee thereof, all right, title and interest under each Mortgage to which that assignment relates.

(xxvi) Each document for each Loan required under Section 2.6(b) hereof to be delivered to the Trustee on behalf of the Issuer meets the requirements of Section 2.6(b) and has been or will be, on or before the Closing Date, delivered to the Trustee.

(xxvii) A Phase I environmental report was prepared with respect to each Mortgaged Property, other than the Mortgaged Properties indicated in the Loan Schedule, prior to the date of this Agreement. To the Issuer's knowledge, each Mortgaged Property was, as of its date of origination of the Underlying Note and as of the Closing Date in material compliance with all applicable environmental laws and regulations.

(xxviii) All escrow deposits, if any, and other payments relating to each Loan have been delivered to the Servicer or its agent, and all amounts required to be deposited by the Issuer or the related Obligor have been deposited and there are no deficiencies with regard thereto.

(xxix) The lien of each Mortgage is insured by an ALTA lender's title insurance policy (or a binding commitment) or its equivalent, as adopted in the applicable jurisdiction. Except as reflected on the Loan Schedule, the policy (or such binding commitment) insures the originator of such Loan, its successors and assigns, as to the first priority lien of the Mortgage in the original principal amount after all advances of principal, subject only to permitted encumbrances, none of which, individually or in the aggregate should interfere with the current use of the Mortgaged Property or materially detract from the benefit of the first priority lien of the Mortgage. The originator of such Loan (including its successors and assigns) is the sole named insured of the policy (or such binding commitment), and the policy (or such binding commitment) is assignable to the Issuer and the Trustee without the consent of or any notification to the insurer. No claims have been made under such policy (or such binding commitment), and the Issuer has no knowledge of any matter that would impair or diminish the coverage of such policy.

(xxx) Each Mortgaged Property is covered by insurance policies providing coverage against loss or damage sustained by (1) fire and extended perils included within the classification "All Risk of Physical Loss" in an amount sufficient to prevent the Obligor from being deemed a co-insurer, and to provide coverage of replacement or actual cost, consistent with industry standards; and the policies contain a standard mortgagee clause naming the mortgagee and its successors as mortgagees and loss payees; (2) flood insurance (if any portion of the Mortgaged Property is located in an area identified by the Federal Emergency Management Agency as having special hazards); and (3) comprehensive general liability insurance in amounts as are generally required by commercial mortgage lenders. The insurance policies contain clauses providing they are not terminable and may not be reduced without 10 days prior written notice to the mortgagee, and all premiums due and payable through the Closing Date have been made. To the Issuer's knowledge, no notice of termination or cancellation with respect to any such policies has been received by PMC or PMCT, as applicable, which remains effective.

(xxxi) To the Issuer's knowledge, the Obligor has good title to the Mortgaged Property.

(xxxii) At least one regularly scheduled payment of principal or interest has been made on the Loan; provided, however, in the event that at least one such regularly scheduled payment has not been made on any Loan and such Loan becomes a 30-day Delinquent Loan prior to the time such regularly scheduled payment is made, such Loan will be deemed to be a Defective Loan and subject to the terms of Section 3.3 hereof.

(xxxiii) The Issuer acknowledges that the Trustee, as assignee of the Issuer with respect to the Contribution Agreement, may enforce any right or remedy thereunder, including any right or remedy with respect to breaches of the representations and warranties thereunder.

3.3 REPURCHASE AND SUBSTITUTION OF LOANS. (a) Upon discovery by either the Issuer, the Servicer, the Trustee or the Supervisory Servicer of a breach of any of the representations and warranties made by PMC or PMCT, as the case may be, pursuant to the Contribution Agreement or made by the Issuer pursuant to Section 3.2 hereof, the party discovering such breach shall give prompt written notice to the others, to the Noteholders, to the Rating Agency and to PMC or PMCT, as the case may be, and the Trustee, upon such discovery or receipt of such notice, shall make written demand upon the Issuer with respect to a breach of any of the representations or warranties contained in Section 3.2 hereof to comply with this Section 3.3 or upon PMC or PMCT, as the case may be, to comply with Section 8 or Section 13, as applicable, of the Contribution Agreement. Within thirty (30) days of its discovery or its receipt of notice of any breach or defect the Issuer, PMC or PMCT, as the case may be, shall, at its option, (i) promptly cure such defect or breach in all material respects, (ii) purchase the affected Loan at a price equal to the Takeout Price, upon the Required Noteholders consent, or (iii) if such defect or breach occurs within two (2) years of the Closing Date, deliver to the Trustee, upon the Required Noteholders consent, in exchange for the affected Loan, a Substitute Loan, together with any related Asset Substitution Shortfall. If the breach or defect has not been cured or a Substitute Loan so delivered to the Trustee within thirty (30) days after such discovery or receipt of notice, the Issuer, PMC or PMCT, as the case may be, must purchase the Defective Loan within one (1) Business Day for an amount equal to the Takeout Price.

(b) In the event a Loan becomes a Charged-Off Loan, PMC or PMCT, as the case may be, may purchase the Charged-Off Loan at a price equal to the Takeout Price or cause or permit the Charged-Off Loan to be released from the lien of this Indenture in accordance with Section 3.4(a)(iii) hereof.

(c) In the event a Loan becomes a Refinancable Loan, the applicable Servicer shall give prompt written notice to the Noteholders, the Trustee, the other Servicer and the Supervisory Servicer and PMC or PMCT, as the case may be, may purchase the Refinancable Loan at a price equal to the Takeout Price and cause or permit the Refinancable Loan to be released from the lien of this Indenture in accordance with Section 3.4 (a)(iii) hereof.

(d) If PMC or PMCT, as the case may be, pursuant to Section 8 of the Contribution Agreement, or the Issuer, PMC or PMCT, as the case may be, pursuant to paragraph (a) above, elects to cause one or more Substitute Loans to be delivered to the Trustee in substitution for any one or more of the original Loans, any required documentation must be delivered pursuant to paragraph (e) below. A Substitute Loan must (i) be an Eligible Loan;

(ii) contractually require interest payments to be made each month in an aggregate amount at least equal to that of the Deleted Mortgage Loan; and (iii) have characteristics such that, as of the substitution date (instead of as of the Closing Date), each of the representations and warranties set forth in Section 3.2 and Sections 3.1(g) and (h) hereof is true and correct in all material respects with respect to the Substitute Loan. If the Substitute Loan has an outstanding Loan Principal Balance (after application of the Monthly Payment due in the month of substitution) which is less than the Takeout Price of the Deleted Mortgage Loan(s) (an "ASSET SUBSTITUTION SHORTFALL"), the Person delivering the Substitute Loan(s) must deposit immediately available funds in the amount of any such Asset Substitution Shortfall in the Collection Account on the substitution date. In the case of a substitution pursuant to Section 3.3(a), the Asset Substitution Shortfall shall include the amounts described in clauses (ii), (iii) and (iv) of the definition of Takeout Price.

(e) In connection with any such substitution, on the substitution date, PMC, PMCT or the Issuer, as the case may be, shall deliver to the Trustee (i) each Substitute Loan to be delivered on such date and (ii) the amount of any Asset Substitution Shortfall relating to the Substitute Loan. In addition, on the substitution date, PMC, PMCT or the Issuer, as the case may be, shall deliver the related Trustee Loan File to the Trustee and the Servicer Loan File to the Servicer with respect to each Substitute Loan.

(f) Upon such purchase or substitution, the Trustee shall deliver to the Person purchasing the Loans or delivering the Substitute Loans, the related Deleted Mortgage Loans and shall amend the Loan Schedule to reflect the deletion of the Deleted Mortgage Loans and, if applicable, the addition of the Substitute Loans and shall release the Deleted Mortgage Loans from the lien of this Indenture by executing and delivering to such Person the release in the form of Exhibit E attached hereto.

(g) Pursuant to the Servicing Agreement, the applicable Servicer shall prepare any instruments necessary for transfers pursuant to this Section.

(h) Substitute Loans may not be delivered (and Defective Loans may not be purchased) pursuant to this Section 3.3 on any date which is a Determination Date.

3.4 RELEASE AND EXCHANGE OF LOANS. (a) The Trustee shall not release and discharge any Loan from the lien of this Indenture until the principal of and interest on the Notes shall have been paid or duly provided for under this Indenture except as follows:

(i) in accordance with the provisions of Section 3.3 hereof;

(ii) upon any Servicer's request provided that the conditions to release have been met pursuant to Sections 3.10 and 4.4 of the Servicing Agreement; and

(iii) on each Payment Date, the Trustee shall release all Charged-Off Loans and all Refinancable Loans from the lien of this Indenture and deliver to the Issuer the deleted Charged-Off Loans and Refinancable Loans; provided, however, that the Trustee shall release any Charged-Off Loan or Refinancable Loan from the lien of this Indenture only if (x) there exists no Funds Retention Event, (y) all outstanding amounts due and payable with respect to the Charged-Off Loan or Refinancable Loan have been paid to the Noteholders as

Required Principal Payments or the Takeout Price has been paid for the Charged-Off Loan or Refinancable Loan or a Substitute Loan has been substituted for the Charged-Off Loan, and (z) the amount on deposit in the Spread Account after giving effect to such proposed release is at least equal to the Specified Spread Account Requirement.

(b) The Trustee shall release a Loan from the lien of this Indenture by executing and delivering a release in the form of Exhibit E hereto, to the Issuer with respect to such Loan. Upon release from the lien of this Indenture, the Issuer simultaneously shall distribute to its partners, or otherwise dispose of, any Loan released pursuant to this Section 3.4. Upon release from the lien of this Indenture, the Trustee shall amend the Loan Schedule to reflect the deletion of the Loans.

(c) Neither the Issuer nor the Trustee shall, without the consent of the Holders of 100% of the principal amount of the Notes Outstanding, sell or otherwise dispose of the Loans as a whole after the Closing Date.

ARTICLE IV

REDEMPTION PROVISIONS

4.1 OPTIONAL REDEMPTION OF THE NOTES. The Notes are subject to redemption in whole, but not in part, at the option of the Issuer on any Payment Date on or after the date on which the Outstanding Note Amount is less than 10% of the Outstanding Note Amount on the Closing Date, at a redemption price equal to 100% of the Outstanding Note Amount plus accrued and unpaid interest thereon at the Applicable Remittance Rate to the redemption date.

4.2 NOTICE OF REDEMPTION. When the Trustee shall receive written notice from the Issuer of its election to redeem the Notes in accordance with Section 4.1 hereof, the Trustee shall, subject to Section 4.3 hereof and in accordance with the provisions of this Indenture, give notice of the redemption of the Notes not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by certified mail, registered mail or overnight delivery to the Holders of the Notes at the last address for each appearing on the Note Register, in the name of the Issuer, which notice shall specify the following: (a) the complete official name of the Notes, (b) the private placement number (if any) of the Notes, (c) the date of such notice, (d) the issuance date for the Notes, (e) the redemption price, the Remittance Rate and Maturity Date of the Notes, (f) the redemption date, (g) the place or places where amounts due upon such redemption will be payable, (h) that on the redemption date there shall become due and payable upon each Note to be redeemed the amount of the principal, together with interest accrued to the redemption date and (i) the redemption agent name and address with a contact person and telephone number. Notice having been so given by the Trustee, the redemption price and unpaid interest accrued to the redemption date shall be due and payable on the specified redemption date. The registered owner of $1,000,000 or more in original principal amount of Notes may specify in writing to the Trustee one additional address to which such notice of redemption shall be sent. Failure to give such notice by mail to any Noteholder, or any defect therein, shall not affect the validity of any proceedings for the redemption of other Notes.

Upon the giving of notice and the payment of funds for redemption pursuant to Section 4.3, the Trustee is hereby authorized and directed to apply such funds to the payment of the Notes, together with accrued interest thereon to the redemption date.

4.3 REDEMPTION PAYMENTS. If the Trustee is required to redeem the Notes pursuant to Section 4.1, and subject to and in accordance with the terms of this Article, the Trustee shall give notice of the redemption in the manner prescribed by Section 4.2 hereof; provided, however, that no such notice of redemption shall be given until the Trustee holds, on the date notice is given pursuant to this Indenture, Available Moneys in the amount necessary to pay, on the redemption date, the principal of and interest on the Notes called for redemption.

The Trustee shall apply moneys held in the Collection Account for the redemption of Notes, and upon such redemption such Notes shall be canceled.

4.4 CANCELLATION. All Notes which have been redeemed, paid or retired or received by the Trustee for exchange shall not be reissued but shall be canceled and destroyed by the Trustee in accordance with Article II hereof.

ARTICLE V

COVENANTS OF ISSUER

5.1 PAYMENT OF PRINCIPAL AND INTEREST. The Issuer covenants that it will promptly pay the principal of and interest on every Note issued under this Indenture at the place, on the dates and in the manner provided herein and in said Notes according to the intent and meaning thereof.

5.2 PERFORMANCE OF COVENANTS. The Issuer covenants that it will perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Transaction Documents, in any and every Note executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto and comply with all material requirements of any law, rule or regulation applicable to it.

5.3 INSTRUMENTS OF FURTHER ASSURANCE. The Issuer agrees that the Trustee may defend its rights to the payments and other amounts due under the Loans for the benefit of the Holders against the claims and demands of all persons whomsoever. The Issuer covenants that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming unto the Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of and interest on the Notes.

5.4 RECORDING AND FILING. The Issuer will cause all financing statements related to this Indenture and the Contribution Agreement, and such other documents as may, in the Opinion of Independent Counsel reasonably acceptable to the Trustee, be necessary to be kept and filed in such manner and in such places as may be required by law in order to preserve and protect fully the security of the Holders and the rights of the Trustee hereunder.

5.5 EXISTENCE. The Issuer will take and fulfill, or cause to be taken and fulfilled, all actions and conditions necessary to preserve and keep in full force and effect its existence, rights and privileges as a limited partnership and will not liquidate or dissolve, and it will take and fulfill, or cause to be taken and fulfilled, all actions and conditions necessary to qualify, and to preserve and keep in full force and effect its qualification, to do business as a foreign limited partnership in each jurisdiction in which the conduct of its business or the ownership or leasing of its properties requires such qualification, except to the extent that any failure to so qualify, or to so preserve and keep in full force and effect such qualification, would not have a material adverse effect on the business, earnings, prospects, properties or condition (financial or other) of the Issuer. The Issuer shall conduct its business in accordance with the terms of its partnership agreement.

5.6 ACCESS TO RECORDS; DISCUSSIONS WITH OFFICERS. The Issuer shall, upon the request of the Trustee, any Noteholder, the Supervisory Servicer or the Rating Agency, permit the Trustee, the Noteholders, the Supervisory Servicer, the Rating Agency or their designees or authorized agents:

(a) to inspect the books and records of the Issuer as they may relate to the Notes, the Loans and the obligations of the Issuer under the Transaction Documents; and

(b) to discuss the affairs, finances and accounts of the Issuer with the General Partner.

Such inspections and discussions shall be conducted during normal business hours and shall not unreasonably disrupt the business of the Issuer, PMCT or PMC. Such inspections shall be at the expense of the inspecting party, or the party requesting the Trustee to conduct such inspection, unless an Event of Default shall have occurred and then be continuing in which case, any such inspection shall be at the expense of the Issuer. The books and records of the Issuer will be maintained at the address of the Issuer designated herein for receipt of notices, unless the Issuer shall otherwise advise the Trustee and the Noteholders in writing.

5.7 NOTICE OF MATERIAL EVENTS. The Issuer shall promptly and, in any event, within five Business Days after the occurrence thereof, inform the Trustee, the Noteholders, the Supervisory Servicer and the Rating Agency in writing of the occurrence of any of the following:

(a) the submission of any material claim or the initiation of any legal process, litigation or administrative or judicial investigation against the Issuer;

(b) any change in the location of the Issuer's principal office or any change in the location of the Issuer's books and records;

(c) the occurrence of any Event of Default, any "event of default" under any other Transaction Document or the occurrence of any event or condition which with the giving of notice or lapse of time or both would constitute an Event of Default or "event of default" under any other Transaction Document;

(d) the commencement or threat of any proceedings instituted by or against the Issuer in any federal, state or local court or before any governmental body or agency, or before

any arbitration board, or the promulgation of any proceeding or any proposed or final rule which, if adversely determined, would result in a material adverse change with respect to the Issuer;

(e) the commencement of any proceedings by or against the Issuer under any applicable bankruptcy, reorganization, liquidation, rehabilitation, insolvency or other similar law now or hereafter in effect or of any proceeding in which a receiver, liquidator, conservator, trustee or similar official shall have been, or may be, appointed or requested for the Issuer or any of its assets.

(f) any merger, consolidation or sale of substantially all of the assets of PMC, PMCT (except any merger or consolidation between PMC and PMCT or where PMC or PMCT, as applicable, is the surviving entity) or the Issuer, which merger, consolidation or sale of substantially all of the assets' shall be in compliance with Section 5.10(f) hereof;

(g) any amendment or other modification of this Indenture, the Servicing Agreement or any of the other Transaction Documents; or

(h) the final payment in full of the Notes.

5.8 MAINTENANCE OF LICENSES; RATING. The Issuer shall maintain all licenses, permits, charters and registrations which are material to the conduct of its business. The Issuer shall at all times while the Notes are outstanding cause the Rating Agency to maintain an ongoing monitoring rating with respect to the Notes.

5.9 USE OF FUNDS. Except for the distribution of the net proceeds (other than amounts utilized to fund the Spread Account) from the sale of the Notes pro rata to its partners and the distribution of funds and other assets released from the Lien of this Indenture pursuant to its partnership agreement which are contemplated and expressly permitted hereby, the Issuer shall apply its funds only towards the payment of amounts due under the Notes and towards the other sums payable by the Issuer under the Transaction Documents.

5.10 NEGATIVE COVENANTS OF THE ISSUER. The Issuer hereby agrees that as long as any Notes remain Outstanding:

(a) No Amendments to Organization Documents. The Issuer shall not amend, supplement or otherwise modify Section 2.3 of its partnership agreement (or permit any of the foregoing). The Issuer shall not amend, supplement or otherwise modify Sections 2.2, 8.1 or 9.1 or Articles V or VI of its partnership agreement without the prior written consent of the Required Noteholders.

(b) Limitation on Indebtedness. The Issuer shall not create, incur or suffer to exist any indebtedness other than the Notes.

(c) No Subsidiaries. The Issuer shall not form, or cause to be formed, any subsidiaries.

(d) Restrictions on Liens. The Issuer shall not (i) create, incur or suffer to exist, or agree to create, incur or suffer to exist, or consent to cause or permit in the future (upon the

happening of a contingency or otherwise) the creation, incurrence or existence of any Lien on the Loans or on any of its assets except for Liens in favor of the Trustee or (ii) sign or file under the Uniform Commercial Code of any jurisdiction any financing statement which names the Issuer as a debtor, or sign any security agreement authorizing any secured party thereunder to file such financing statement, except in each case any such instrument solely securing the rights and preserving the Lien of the Trustee.

(e) No Impairment of Rights. The Issuer shall not (i) take any action, or fail to take any action, if such action or failure to take action may interfere with the enforcement of any material rights, benefits or obligations of the Trustee under the Transaction Documents; (ii) waive or alter any rights with respect to the Loans (or any agreement or instrument relating thereto); (iii) take any action, or fail to take any action, if such action or failure to take action may interfere with the enforcement of any rights with respect to the Loans; or (iv) fail to pay any tax, assessment, charge or fee with respect to the Loans, or fail to defend any action, if such failure to pay or defend may adversely affect the priority or enforceability of the Trustee's first priority lien on or perfected security interest in the Loans or the Issuer's right, title or interest in the Loans.

(f) Limitation on Mergers, Etc. The Issuer shall not consolidate with or merge with or into any Person or transfer all or any material amount of its assets to any Person or liquidate or dissolve unless (i) the Issuer shall have provided prior written notice thereof to the Noteholders, together with an officer's certificate and an Opinion of Counsel to the effect that such consolidation, merger or transfer complies with the terms of the Transaction Documents and the Issuer's partnership agreement, and (ii) the Required Noteholders have consented thereto in writing. The Issuer shall not permit the General Partner, PMCT or PMC to sell, transfer, assign or otherwise dispose of or convey its respective partnership interest in the Issuer.

(g) No Waiver, Amendments, Etc. The Issuer shall not waive, modify or amend, or consent to any waiver, modification or amendment of, any of the provisions of any of the Transaction Documents, except as expressly permitted thereby.

(h) Restriction on Actions Under Partnership Agreement. The Issuer shall not take any of the actions set forth in Section 2.3 of its partnership agreement.

(i) No Action Making Issuer a Taxable Mortgage Pool. The Issuer shall not take any action or fail to take any action that would cause the Issuer to be treated as a "taxable mortgage pool" as defined in Section 7701(i) of the Code.

5.11 OPINIONS AS TO LOANS AND TRUST ESTATE. (a) On the Closing Date, the Issuer shall furnish to the Trustee and the Initial Purchaser an Opinion of Independent Counsel either stating that, in the opinion of such counsel, such actions have been taken as are necessary to perfect and make effective the lien and first priority perfected security interest of (i) the Issuer with respect to PMCT's and PMC's interest in the Loans in the event the contribution of the Loans to the Issuer by PMC or PMCT pursuant to the Contribution Agreement is recharacterized as a secured lending transaction, and (ii) this Indenture with respect to the Trust Estate and reciting the details of such action, or stating that, in the opinion of such counsel, no such action is necessary to make such liens and security interests effective. Such Opinion of Counsel shall also describe the

recording, filing, re-recording and refiling of this Indenture, any supplemental indentures and any other requisite documents and the execution and filing of any financing statements and continuation statements and the taking of any other action that will, in the opinion of such counsel, be required to maintain such liens and first priority perfected security interests.

(b) The Issuer shall furnish to the Trustee an Opinion of Counsel on or before March 30 of each calendar year, commencing March 30, 2002, either stating that, in the opinion of such counsel, such actions have been taken as are necessary to maintain the liens and first priority perfected security interests of the Issuer in the Loans (to the extent the contribution of the Loans to the Issuer by PMC or PMCT pursuant to the Contribution Agreement is recharacterized as a secured lending transaction) and of the Trustee created by this Indenture with respect to the Trust Estate and reciting the details of such action or stating that, in the opinion of such counsel, no such action is necessary to maintain such liens and security interests. Such Opinion of Counsel shall also describe the recording, filing, re-recording and refiling of this Indenture, any supplemental indentures and any other requisite documents and the execution and filing of any financing statements and continuation statements and the taking of any other action that will, in the opinion of such counsel, be required to maintain such liens and first priority perfected security interests of this Indenture and the Contribution Agreement until March 30 in the following calendar year.

5.12 MAINTENANCE OF OFFICE. The Issuer will maintain at its office located at its address shown in the definition of "Notice Address" an office where notices, presentations and demands in respect of this Indenture and the Notes may be given to and made upon it; provided, however, that it may, upon fifteen (15) Business Days' prior written notice to the Noteholders and the Trustee, move such office to any other location within the boundaries of the continental United States of America.

5.13 RESTRICTIONS ON ISSUER'S ACTIONS. The Issuer covenants and agrees, until the cancellation and discharge of the Lien of this Indenture, to take any and all actions to ensure that the Issuer will be recognized as a Person separate from each of its Affiliates and that its assets and liabilities will not be commingled with the assets and liabilities of any of its Affiliates. In furtherance and not in limitation of the foregoing, the Issuer covenants and agrees that:

(a) Until the cancellation and discharge of the Lien of this Indenture, at least two (2) of the managers of the General Partner will be persons who are not and have not been during the two (2) years preceding such appointment (i) an officer, director, partner, manager, employee or stockholder of any Affiliate of the Issuer, (ii) affiliated with a significant customer or supplier of the Issuer or any of its Affiliates, or (iii) a spouse, parent, sibling or child of any person described in clauses (i) or (ii) (each such manager, an "INDEPENDENT MANAGER").

(b) Funds and other assets of the Issuer shall be separately identified and segregated. All of the Issuer's assets shall at all times be held by or on behalf of the Issuer, and, if held by another entity, shall at all times be kept identifiable (in accordance with customary usages) as assets owned by the Issuer. The Issuer shall maintain its own separate bank accounts, payroll, books of account and letterhead. In no event shall any of the Issuer's assets be held on its behalf by any Affiliate.

(c) The Issuer shall pay from its assets all obligations of any kind incurred by the Issuer (other than organizational expenses) and shall allocate and charge fairly any common overhead shared with its Affiliates, including, without limitation, the cost of any shared office space.

(d) All financial statements, accounting records and other corporate documents of the Issuer shall be maintained at its office separate from those of any Affiliate or any other Person.

(e) The Issuer shall observe all customary formalities regarding its existence as a limited partnership.

(f) The audited annual, consolidated balance sheets and income statements of PMC and PMCT and the unaudited annual balance sheet and income statement of the Issuer shall disclose, in accordance with and to the extent required under generally accepted accounting principles, any transactions between the Issuer and any Affiliate.

(g) All business transactions, other than those contemplated by this Indenture, entered into by the Issuer with any Affiliate shall be on terms and conditions that are not more or less favorable to the Issuer than the terms and conditions that would be expected to have been obtained, under similar circumstances, from unaffiliated persons. In addition, all such transactions shall be approved by the Independent Managers. The Issuer shall not guarantee any liabilities or obligations of any Affiliate, nor shall it assume any indebtedness or other liabilities or obligations of any Affiliate.

(h) The Issuer shall at all times hold itself out to the public (including any Affiliate's creditors) as a separate and distinct entity operating under the Issuer's own name and the Issuer shall act solely on its own name and through its own authorized partners, officers and agents.

(i) The Issuer shall pay out of its own funds fees, if any, for its directors and salaries, if any, of its officers and employees, and shall promptly reimburse any Affiliate for any service provided to the Issuer by such Affiliate (other than the Servicers pursuant to the terms of the Servicing Agreement).

(j) Notwithstanding any other provision of the Issuer's partnership agreement and any provision of law that otherwise so empowers the Issuer, the Issuer shall not:

(i) engage in any business or activity other than as set forth in the Issuer's agreement of limited partnership;

(ii) without the approval of a majority of the managers of the General Partner, including all of the Independent Managers and only upon the Issuer's insolvency, institute proceedings to be adjudicated a bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against it, or file a petition seeking or consent to reorganization or relief under any applicable federal or state law relating to bankruptcy, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Issuer or a substantial part of its property, or make any assignment for the

benefit of creditors, or admit in writing its inability to pay its debts generally as they become due, or take any corporate action in furtherance of any such action;

(iii) liquidate, in whole or in part; or

(iv) acquire, by redemption or otherwise, any of its partnership interests during the period in which any Notes are Outstanding.

5.14 INSURANCE COVERAGE. In the event the Trust Estate shall include REO Property, the Issuer will notify the Trustee and the Noteholders in writing no later than five (5) Business Days prior to the acquisition of such REO Property. The Servicer will maintain liability and casualty insurance with respect to the related Mortgaged Property in accordance with the terms of the Servicing Agreement.

5.15 FINANCIAL STATEMENTS AND ACCOUNTANTS' REPORTS. The Issuer shall furnish or cause to be furnished to the Trustee, the Noteholders and the Rating Agency:

(i) Annual Financial Statements. As soon as available, and in any event within one hundred twenty (120) days after the close of each fiscal year of the Issuer, the Issuer's financial statements as of the end of such fiscal year; and

(ii) Accountants' Reports. Promptly upon receipt thereof, copies of any reports submitted to the Issuer by its independent accountants, if any, in connection with any examination of the financial statements of the Issuer.

(iii) In addition to the foregoing, the Issuer shall furnish or cause to be furnished to any Noteholder or any prospective purchaser of the Notes, upon the written request of any Noteholder, any additional information required by Rule 144A(d)(4) under the Act.

ARTICLE VI

REVENUES AND ACCOUNTS

6.1 CREATION OF ACCOUNTS. On the Closing Date, the Trustee shall establish the Collection Account and the Spread Account as non-interest bearing trust accounts in its corporate trust department if the Trustee is a depository institution that is not rated at least "P-1" or the equivalent by the Rating Agency. The Collection Account shall be entitled "Collection Account--BNY Midwest Trust Company, as Trustee, in trust for registered Holders of $75,378,920 PMC Joint Venture, L.P. 2001 Loan-Backed Fixed Rate Notes" and the Spread Account shall be entitled "Spread Account--BNY Midwest Trust Company, as Trustee, in trust for registered Holders of $75,378,920 PMC Joint Venture, L.P. 2001 Loan-Backed Fixed Rate Notes." If the Trustee is a depository institution rated at least "P-1" or the equivalent by the Rating Agency, the Collection Account and the Spread Account may be established as deposit accounts. All amounts credited to the Collection Account or the Spread Account shall be held by the Trustee in trust for the Holders of the Notes until distribution of any such amounts is authorized under this Indenture. All distributions, payments and withdrawals from the Collection Account and the Spread Account shall be determined in accordance with the related Determination Date Report.

6.2 DEPOSITS TO THE COLLECTION ACCOUNT. There shall be deposited into the Collection Account:

(a) so long as the Notes are Outstanding, on each Business Day, all Collections deposited to the Lockbox Account;

(b) on the date of receipt thereof, any Takeout Price or Asset Substitution Shortfall received pursuant to Section 3.3 hereof;

(c) on the date of receipt thereof, all income from investment or reinvestment of amounts held in the Collection Account;

(d) on the relevant Payment Date, any amounts transferred from the Spread Account pursuant to Section 6.3; and

(e) on the date of receipt thereof, any other amounts received by the Trustee with respect to the Loans or the trusts created hereby.

6.3 DEPOSITS IN SPREAD ACCOUNT; PERMITTED WITHDRAWALS FROM SPREAD ACCOUNT. (a) The Trustee shall, promptly upon receipt, deposit in the Spread Account:

(i) on the Closing Date, the Initial Deposit; and

(ii) on each Payment Date, from amounts then on deposit in the Collection Account, the amount required to be deposited into the Spread Account pursuant to Section 6.4(b) until the amount on deposit therein equals the then applicable Specified Spread Account Requirement.

(b) Amounts on deposit in the Spread Account shall be withdrawn by the Trustee in the manner set forth in subclause (c) below on each Payment Date in the following order of priority:

(i) to deposit in the Collection Account an amount by which (a) the Interest Distribution Amount, the Principal Distribution Amount and the Carry Forward Amount, if any, exceed (b) the Available Funds for such Payment Date (but excluding from such definition of Available Funds, amounts in the Spread Account); and

(ii) to the extent that the amount then on deposit in the Spread Account after giving effect to any required transfers from the Spread Account to the Collection Account on such Payment Date pursuant to clause (i) above then exceeds the Specified Spread Account Requirement as of such Payment Date (such excess, a "SPREAD ACCOUNT EXCESS"), an amount equal to such Spread Account Excess shall be deposited in the Collection Account prior to the making of any distributions to the Servicers in reimbursement of Servicing Expenses on such Payment Date;

and also, in no particular order of priority:

(iii) to invest amounts on deposit in the Spread Account in Eligible Investments pursuant to Article VII;

(iv) to withdraw any amount not required to be deposited in the Spread Account or deposited therein in error; and

(v) to clear and terminate the Spread Account upon the termination of this Indenture in accordance with the terms hereof.

(c) Any amounts which are required to be withdrawn from the Spread Account pursuant to paragraph (b) above shall be withdrawn from the Spread Account in the following order of priority: (i) first, from any uninvested funds therein, and second, from the proceeds of the liquidation of any investments therein pursuant to Article VII.

6.4 DISTRIBUTIONS. (a) The rights of the Noteholders to receive payments of principal and interest on the Notes shall be as set forth in this Indenture.

(b) On each Payment Date, based on information contained in the related Determination Date Report, the Trustee shall withdraw the amounts then on deposit in the Collection Account which shall include amounts, if any, deposited therein from the Spread Account and make distributions thereof in the following order of priority:

(i) First, to the Trustee, the Servicers, and the Supervisory Servicer, if any, for payment of the Trustee's Fee, the Servicing Fee, and the Supervisory Servicing Fee, if any;

(ii) Second, to the Noteholders, in an amount up to the Regular Interest Distribution Amount;

(iii) Third, to the Noteholders, in an amount up to the sum of (a) the Principal Distribution Amount and (b) the Carry Forward Amount, if any;

(iv) Fourth, to the Spread Account, any remainder unless and until the amount therein equals the Specified Spread Account Requirement;

(v) Fifth, to the Noteholders, in an amount up to the difference of (1) the Interest Distribution Amount minus (2) the Regular Interest Distribution Amount;

(vi) Sixth, (a) to the Servicers in reimbursement of Servicing Expenses paid by the Servicers pursuant to Section 3.8 of the Servicing Agreement, (b) to the Trustee, Supervisory Servicer, Registrar and Paying Agent in reimbursement of expenses incurred pursuant to the Transaction Documents, and (c) to the Successor Servicer (as defined in Section 3.5(a) of the Supervisory Servicing Agreement) the costs and expenses pursuant to the transfer and transition of the servicing function set forth in Section 3.7 of the Supervisory Servicing Agreement;

(vii) Seventh, provided no Funds Retention Event then exists, to the Issuer, in an amount sufficient to pay the administrative and operating expenses of the Issuer,

including without limitation, any unpaid expenses and other amounts owed by the Issuer to the Trustee and Supervisory Servicer and other administrative costs of maintaining the Trust Estate; provided, however, in the event that a Funds Retention Event then exists, any remaining amount that would have otherwise been paid to the Issuer on such Payment Date pursuant to this clause 6.4(b)(vii) shall be retained in the Collection Account; and

(viii) Eighth, provided no Funds Retention Event or Redemption Trigger Event then exists, to the Issuer any remaining amounts, together with any permitted release from the Spread Account free and clear of the lien of this Indenture; provided, however, in the event that a Funds Retention Event then exists, any remaining amount that would have otherwise been paid to the Issuer on such Payment Date pursuant to this clause 6.4(b)(viii) shall be retained in the Collection Account; and provided further, notwithstanding the foregoing, in the event a Redemption Trigger Event then exists, any remaining amount that would have otherwise been paid to the Issuer on such Payment Date pursuant to this clause 6.4(b)(viii) shall be paid to the Noteholders and applied to the outstanding principal balance of the Notes until the Notes are repaid in full;

(c) All distributions made to the Noteholders will be made on a pro rata basis among the Noteholders of record on the next preceding Record Date based on each such Noteholder's percentage of the Aggregate Note Principal Balance represented by its respective Notes, and shall be made by wire transfer of immediately available funds to the account of such Noteholder at a bank or other entity having appropriate facilities therefor.

6.5 MONEYS TO BE HELD IN TRUST. All moneys required to be deposited with or paid to the Trustee for the account of any fund or account established under any provision of this Indenture shall be held by the Trustee in trust and not commingled with the funds or accounts of any other Person, and notice of the redemption of which has been duly given, shall, while held by the Trustee, constitute part of the Trust Estate and be subject to the security interest created hereby. Any moneys erroneously deposited in any fund or account established under this Indenture shall be promptly returned to the Issuer and shall not constitute part of the Trust Estate or be subject to the security interest granted hereby.

6.6 AMOUNTS REMAINING IN FUNDS AND ACCOUNTS. Any amounts remaining in any fund or account after full payment of the Notes, and all other amounts required to be paid hereunder, shall be released to the Issuer.

6.7 ACCOUNTS AND REPORTS. The Trustee, on behalf of the Issuer, shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Notes and all funds and accounts established by or pursuant to this Indenture, which shall at all reasonable times during regular business hours, be subject to the inspection of the Issuer or of the Holders of an aggregate of not less than ten percent in principal amount of Notes Outstanding or their representatives duly authorized in writing.

By the fifteenth (15th) day of each month or the next Business Day if the 15th is not a Business Day, the Trustee shall furnish to the Issuer, the Rating Agency and the Noteholders monthly statements in the form attached hereto as Exhibit C (the "MONTHLY TRUSTEE REPORT")

showing the beginning and ending balances of and deposits to and withdrawals from and assets held in the Collection Account and the Spread Account as of the close of business on the last day of the preceding month. The Trustee shall also provide such other information regarding the Trust Estate and the Issuer as may be reasonably requested by the Rating Agency or any Noteholder to the extent the Trustee can obtain such information without unreasonable effort or expense.

6.8 TAX REPORTING. The Issuer shall be responsible for the preparation and filing with the appropriate governmental agency of all tax returns and reports ("TAX RETURNS") with respect to the Issuer. The Issuer shall cause a copy of the completed and signed Tax Return (and a copy of any check delivered in connection therewith in payment of any tax due) to be delivered to the Trustee, at least five (5) Business Days prior to the required filing date, after any additional time granted pursuant to any properly filed extensions. The Trustee shall have no responsibility to verify the accuracy of the information in any such Tax Return, may rely on the information included therein and shall not have any liability for any inaccuracy or misstatement in such Tax Return.

ARTICLE VII

INVESTMENT OF MONEYS

Any moneys held as part of any fund or account shall be invested and reinvested in Eligible Investments by the Trustee at the written direction of the Servicers; provided, however, in the event that the Servicers at any time fail to give or confirm such direction to the Trustee, the Servicers shall be deemed to have directed the Trustee in writing to invest any moneys held as part of any fund or account and not already invested in Eligible Investments, in a money market fund meeting the requirements of clause (vi) of the definition of "Eligible Investments." With respect to each investment made by the Trustee, the Trustee shall make such investment in its name as Trustee and take such action as shall be required from time to time to accomplish the transfer to the Trustee the ownership thereof and all income thereon and all proceeds thereof, in good faith and free and clear of any adverse claim. All such investments shall at all times be a part of the fund or account from whence the moneys used to acquire such investments shall have come, and all income and profits on such investments shall be first used to offset any investment losses in such fund, and then shall be credited as provided in Article VI. All Eligible Investments shall mature no later than the day prior to the next Payment Date, provided that any investments in money market funds may mature on the applicable Payment Date. The Trustee shall sell and reduce to cash a sufficient amount of such investments in the respective fund or account whenever the cash balance therein is insufficient to pay the amounts contemplated to be paid therefrom. The Trustee shall have no liability or responsibility for the selection of investments or for any loss resulting from any investment made in accordance with the provisions of this Article VII. The Trustee shall have no liability with respect to losses incurred as a result of the liquidation of any investment prior to its stated maturity or the failure of the Servicers to provide timely written investment directions. The Trustee shall not be liable for any investment made in accordance with the directions of the Servicers or for keeping the funds fully invested at all times, provided that the Trustee invests funds in a non-negligent manner in accordance with this Article VII and the Servicers' directions.

ARTICLE VIII

DISCHARGE OF INDENTURE

If the Issuer shall (i) pay or cause to be paid to the Holders of the Notes all outstanding principal and accrued and unpaid interest due thereon at the times and in the manner stipulated therein, and shall pay or cause to be paid to the Trustee all sums of moneys due according to the provisions hereof (including the Trustee's reasonable fees and expenses and those of its attorneys) and the Notes, and (ii) deliver to the Trustee an Officer's Certificate and Opinion of Counsel stating that all conditions precedent under the Indenture relating to the discharge of the Indenture have been complied with, then these presents and the estate and rights hereby granted shall cease, determine and be void, whereupon the Trustee shall cancel and discharge the lien of this Indenture, and execute and deliver to the Issuer such instruments in writing as shall be requisite to cancel and discharge the lien hereof, and release, assign and deliver unto the Issuer any and all of the estate, right, title and interest in and to any and all rights assigned or pledged to the Trustee or otherwise subject to the lien of this Indenture, including, but not limited to, all moneys, securities and other property held in the Trust Estate.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Issuer to the Trustee under Section 9.2 hereof, the obligations of the Trustee and each Paying Agent to the Issuer and to the Holders of Notes under Section 10.10 hereof, the obligations of the Trustee to the Holders of Notes under this Article VIII and the provisions of Article II hereof with respect to lost, stolen, destroyed and mutilated Notes, registration of transfers and exchanges of Notes, and rights to receive payments of principal of the Notes and accrued and unpaid interest thereon shall survive.

ARTICLE IX

DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND NOTEHOLDERS

9.1 EVENTS OF DEFAULT. The happening of any one or more of the following events shall constitute an "Event of Default":

(a) default in the due and punctual payment of the entire amount of any interest due and payable on any Note which continues unremedied for five (5) days;

(b) default in the due and punctual payment of (i) the Principal Distribution Amount on any Payment Date which continues unremedied for five (5) days or (ii) the entire remaining principal upon the redemption of the Notes pursuant to Section 4.1 or at the Maturity Date;

(c) default in the performance or observance of any of the covenants in Section 5.10 or 5.13;

(d) default in the performance or observance of any of the covenants, agreements or conditions on the part of the Issuer contained in this Indenture or in the Notes and not described in another paragraph of this Section 9.1, which failure shall continue for a period of

thirty (30) days after the earlier to occur of the date on which the Issuer obtained actual knowledge of such failure or the date written notice of such failure, requiring the same to be remedied, shall have been received by the Issuer from the Trustee or any Holder, provided that, if such failure shall be of a nature that it cannot be cured within thirty (30) days, such failure shall not constitute an Event of Default hereunder if within such 30-day period the Issuer shall have given notice to the Trustee and the Noteholders of the Notes of corrective action it proposes to take, which corrective action is agreed in writing by the Trustee and the Required Noteholders to be satisfactory and the Issuer shall thereafter pursue such corrective action diligently until such default is cured but in no event longer than ninety (90) days after such notice to the Trustee and Noteholders;

(e) any representation or warranty made by the Issuer under this Indenture, or any representation or warranty made by the Issuer or any Affiliate of the Issuer in any Transaction Document or in any certificate or report furnished under this Indenture or any Transaction Document, shall prove to be untrue or incorrect in any material respect and such breach is not cured in all material respects within thirty (30) days after the date written notice of such inaccuracy, requiring it to be remedied, is given to the Issuer by the Trustee or any Holder;

(f) (i) the Issuer shall have asserted that any of the Transaction Documents to which it is a party are not valid and binding on the parties thereto; or (ii) any court, governmental authority or agency having jurisdiction over any of the parties to any of the Transaction Documents or any property thereof shall find or rule that any material provision of any of the Transaction Documents is not valid and binding on the parties thereto;

(g) the General Partner or the Issuer shall fail to pay its debts generally as they come due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or shall institute any proceeding seeking to adjudicate the General Partner or the Issuer insolvent or seeking a liquidation, or shall take advantage of any insolvency act, or shall commence a case or other proceeding naming the Issuer as debtor under the United States Bankruptcy Code or similar law, domestic or foreign, or a case or other proceeding shall be commenced against the General Partner or the Issuer under the United States Bankruptcy Code or similar law, domestic or foreign, or any proceeding shall be instituted against the General Partner or the Issuer seeking liquidation of the General Partner's or the Issuer's assets and the General Partner or the Issuer, as applicable, shall fail to take appropriate action resulting in the withdrawal or dismissal of such proceeding within ninety (90) days or there shall be appointed or the General Partner or the Issuer shall consent to, or acquiesce in, the appointment of a receiver, liquidator, conservator, trustee or similar official in respect of the General Partner or the Issuer or the whole or any substantial part of its properties or assets or the General Partner or the Issuer shall take any corporate action in furtherance of any of the foregoing;

(h) the existence of any Event of Default by PMC or PMCT under the Contribution Agreement, any Servicer Default under the Servicing Agreement if the Servicer is PMC and/or PMCT or an Affiliate of PMC, PMCT or the Issuer, and any Supervisory Servicer Default under the Supervisory Servicer Agreement if the Supervisory Servicer is PMC, PMCT or an Affiliate of PMC, PMCT or the Issuer; or

(i) the occurrence of an "event of default" under any other of the Transaction Documents (other than an "event of default" by the Supervisory Servicer or a Servicer Default if the Servicer is not an Affiliate of the Issuer), after the satisfaction of any applicable notice provisions and the expiration of any applicable cure periods.

The Trustee shall give written notice to the Noteholders, the Rating Agency and the U.S. Small Business Administration of any Event of Default within five days after the Trustee has actual knowledge of such Event of Default.

9.2 REMEDIES; RIGHTS OF NOTEHOLDERS. Upon the occurrence of an Event of Default, the Trustee, upon the request of the Required Noteholders shall, pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on the Notes then outstanding and all other amounts due and owing under the Transaction Documents, including enforcement of any rights of the Issuer under the Transaction Documents, Loans and any documents or instruments related thereto.

If an Event of Default described in Section 9.1(g) occurs, the principal of all the Notes and all accrued and unpaid interest thereon shall become immediately due and payable. The Trustee shall provide notice in writing of such Event of Default to the Noteholders, the Servicer and the Supervisory Servicer.

If an Event of Default occurs and is continuing and if the Required Noteholders have requested the Trustee to accelerate the Notes, the Trustee shall declare the principal of all the Notes to be immediately due and payable, by a notice in writing to the Issuer, the Noteholders, the Servicer and the Supervisory Servicer (and to the Trustee if given by the Noteholders), and upon any such declaration such principal and accrued and unpaid interest shall become immediately due and payable.

If an Event of Default shall have occurred, and if indemnified as provided in Section 10.1(p) hereof, the Trustee shall, if directed in writing by the Required Noteholders, be obligated to exercise one or more of the rights and powers conferred by this Article IX, as the Trustee shall be directed by the Required Noteholders.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Noteholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Noteholders of the Notes hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any Event of Default hereunder, whether by the Trustee or by the Noteholders, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

9.3 RIGHT OF NOTEHOLDERS TO DIRECT PROCEEDINGS. Anything in this Indenture to the contrary notwithstanding, the Required Noteholders shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder or thereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

9.4 APPOINTMENT OF RECEIVERS. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Noteholders under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

9.5 APPLICATION OF MONEYS. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of any fees and expenses, including any extraordinary fees and expenses, due and payable to the Trustee and the Supervisory Servicer hereunder or under the Servicing Agreement or the Supervisory Servicing Agreement, be deposited in the Collection Account and all moneys in the Collection Account (other than moneys held for redemption of the Notes duly called for redemption) shall be applied as follows:

FIRST--To the payment to the Persons entitled thereto of all interest then due on the Notes, in the order of the maturity of such interest, with interest on unpaid principal and, to the extent permitted by applicable law, accrued interest at the Default Rate to the extent such amount has not been distributed to the Noteholders when due, and, if the amount available shall not be sufficient to pay in full said amount, then to the payment ratably, according to the amounts due to the Persons entitled thereto, without any discrimination or privilege;

SECOND-- To the payment to the Persons entitled thereto of any unpaid principal of the Notes which shall have become due in order of maturity and, if the amount available shall not be sufficient to pay in full such principal due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege;

THIRD--To be held for the payment to the Persons entitled thereto as the same shall become due.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application is to be made. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

Whenever all principal of and interest on all Notes and all other amounts due and owing hereunder and under the Notes have been paid under the provisions of this Section, any balance remaining in the Collection Account and the Spread Account shall be released to the Issuer.

9.6 REMEDIES VESTED IN TRUSTEE. All rights of action (including the right to file proof of claims) under this Indenture or under any of the Notes may be enforced by the Trustee without the possession of any of the Notes or the production thereof in any trial or other proceeding related thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holder of the Notes, and any recovery of judgment shall be for the equal and ratable benefit of the Holders of the Outstanding Notes.

9.7 RIGHTS AND REMEDIES OF NOTEHOLDERS. No Holder of any Note shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of this Indenture or for the execution of any trust hereof or for the appointment of a receiver or any other remedy hereunder or thereunder, unless (a) an Event of Default has occurred of which the Trustee has been notified by such Holder as provided in Section 10.1(l) hereof, or of which by said subsection it is deemed to have notice, (b) the Holders of not less than 25% of the Outstanding Note Amount shall have given written notice to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers herein before granted or to institute such action, suit or proceeding in their own name or names, (c) Noteholders have offered to the Trustee indemnity as provided in Section 10.1(p) hereof, and (d) the Trustee shall thereafter fail or refuse to exercise the powers herein before granted within thirty (30) days thereafter, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for the enforcement of this Indenture, or for the appointment of a receiver or for any other remedy hereunder or thereunder; it being understood and intended that no one or more Holders of the Notes shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the Holders of all Notes Outstanding. However, nothing contained in this Indenture shall affect or impair the right of any Noteholder to enforce the payment of the principal of and interest on any Note at and after the Maturity Date thereof, or the obligation of the Issuer to pay the principal of and interest on each of the Notes issued hereunder to the respective Holders thereof at the time, place, from the source and in the manner in the Notes expressed.

9.8 TERMINATION OF PROCEEDINGS. In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Trustee and the Noteholders shall be restored to their former positions and rights hereunder and thereunder, respectively, with regard to the property herein subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

9.9 WAIVERS OF EVENTS OF DEFAULT. The Trustee may waive any Event of Default that has been remedied and any Event of Default (and its consequences) relating to a default in the performance or observance of any covenant, agreement or condition contained in the Indenture, or a breach of a representation or warranty made by the Issuer in the Indenture or in any certificate or report furnished under the Indenture, or the occurrence of any "event of default" under the contracts and related documents governing the transfer and servicing of the Loans and other matters relating to the issuance of the Notes. The Trustee may waive any other Event of Default that has occurred and is continuing only upon the written request of the Required Noteholders; provided, however, that there shall not be waived (x) any Event of Default in the payment of the principal of any outstanding Notes when due or (y) any default in the payment when due of the interest on any such Notes unless, prior to such waiver or rescission, all arrears of interest or all arrears of payments of principal when due, with interest on overdue principal and, to the extent permitted by applicable law, interest at the Default Rate, and all expenses of the Trustee in connection with such Event of Default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee and the Noteholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other Event of Default or impair any right consequent thereon. Any waivers made by the Trustee pursuant to this Section shall be in writing and shall specify the nature of the Event of Default and the effective date of the waiver and the Trustee shall send a copy of all such waivers to the Noteholders and the Rating Agency.

ARTICLE X

TRUSTEE

10.1 ACCEPTANCE OF THE TRUSTS. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts and to continue to perform, provided that the Trustee may, in accordance with Section 10.6 hereof, exercise its right to resign from the trusts created hereby; and provided further that the acceptance by the Trustee of the trusts imposed under this Indenture and the agreement to perform said trusts are subject to the following express terms and conditions:

(a) The Trustee agrees to accept receipt, subject to review as stated herein, of the Loans and other assets in the Trust Estate and declares that it holds and will hold the Loans and other assets in the Trust Estate in trust for the benefit of the Noteholders.

(b) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied duties shall be read into this Indenture against the Trustee. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) The Trustee shall not be liable for its acts or omissions in carrying out its duties hereunder, except for its own negligence or willful misconduct. The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(d) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the directions of the Required Noteholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(f) The Trustee may execute any of the trusts or powers hereunder and perform any of its duties hereunder either directly or by or through agents or attorneys or a custodian or nominee and the Trustee shall not be responsible for any misconduct or negligence on the part of any such party appointed in good faith with due care by it hereunder. The Trustee may consult with counsel, including Issuer's counsel, concerning all matters of trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting upon the opinion or advice of any attorneys approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(g) The recitals contained herein and in the Notes, other than the certificate of authentication, shall be taken as statements of the Issuer, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Notes or of any Loans or related document. The Trustee shall not be accountable for the use or application by the Issuer of any of the proceeds of any of the Notes, or for the use or application of any funds deposited in or withdrawn from the Collection Account or the Spread Account or any other account by or on behalf of the Issuer. The Trustee shall not be responsible for the accuracy or content of any resolution, certificate, statement, opinion, report, document, order or other instrument furnished by the Issuer and accepted by the Trustee in good faith, pursuant to this Indenture. The Trustee shall have no duty to monitor the performance of the Issuer and Servicers, nor shall it have any liability in connection with the malfeasance or nonfeasance by the Issuer and Servicers except for its obligations under the Supervisory Servicing Agreement; provided, however, if the Trustee has assumed the role of a Servicer it shall be liable for its own malfeasance or nonfeasance in acting as Servicer. The Trustee shall have no liability in connection with compliance by the Issuer and Servicers with statutory or regulatory requirements related to the Indenture and the Notes.

(h) The Trustee shall not be accountable for the use of any Notes authenticated or delivered hereunder. The Trustee may in good faith buy, sell, own and hold any of the Notes and

may join in any action which any Holder of Notes may be entitled to take with like effect as if the Trustee were not a party to this Indenture. The Trustee may also engage in or be interested in any financial or other transaction with the Issuer or any Holder, provided that if the Trustee determines that any such relationship is in conflict with its duties under this Indenture, it shall eliminate the conflict or resign as the Trustee.

(i) The Trustee may rely and shall be protected in acting or refraining from acting to the extent such action or inaction is directed by any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Holder of any Note, shall be conclusive and binding upon all future Holders of the same Note and upon Notes issued in exchange therefor or in place thereof.

(j) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by an Authorized Officer of the Issuer as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default of which the Trustee has been notified as provided in subsection (l) of this Section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may, at its discretion, secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of an Authorized Officer of the Issuer to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(k) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

(l) The Trustee shall not be required to take or be charged with notice or be deemed to have notice of any Event of Default hereunder, except any Event of Default described in Sections 9.1(a) and (b) or the failure of the Issuer to file with the Trustee any document required by this Indenture, or of the Servicers to file with the Trustee any document required by the Servicing Agreement to be so filed subsequent to the issuance of the Notes, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer, the Servicers, the Supervisory Servicer or any Holder, and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Corporate Trust Office of the Trustee, and, in the absence of such delivery, the Trustee may conclusively assume there is no Event of Default except as aforesaid.

(m) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect any and all of the property herein conveyed, including all books, papers and records of the Issuer and the Servicers pertaining to the revenues and receipts under the Loans and the Underlying Notes, and to take such notes from and in regard thereto as may be desired.

(n) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(o) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Notes, the withdrawal of any cash, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee deemed desirable for the purpose of establishing the right of the Issuer to the authentication of any Notes, the withdrawal of any cash, or the taking of any other action by the Trustee.

(p) Before taking the action referred to in Article IX hereof, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which the Trustee may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct by reason of any action so taken.

(q) All moneys received by the Trustee or any Paying Agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received and shall be segregated from other funds and accounts and not commingled with any other funds.

10.2 FEES, CHARGES AND EXPENSES OF TRUSTEE. The Trustee shall be entitled to payment and reimbursement for the Trustee's Fee and all reasonable counsel fees and other out-of-pocket expenses reasonably incurred by the Trustee to third parties in connection with such services from moneys available therefor in accordance with the priority set forth in Section 6.4 hereof and the Trustee shall have the first lien with right of payment prior to payment on any Note upon the Trust Estate for the amount of the Trustee's Fee. The Trustee shall have no claims against the Trust Estate for amounts owed to it hereunder other than as specified above. The Issuer agrees to indemnify and hold the Trustee and its officers, directors, agents and employees harmless from any loss, claim, demand, liability or expense (including, without limitation, fees and expenses of its attorneys) arising from or related to the acceptance of and performance of its duties under this Indenture which do not result from the Trustee's negligence or willful misconduct. This Section 10.2 shall survive the termination of this Indenture or resignation or removal of the Trustee. Such indemnity shall not be payable from the Trust Estate, except as provided in Section 6.4, and the Trustee shall not institute any legal action, including a bankruptcy proceeding against the Issuer to enforce such indemnity while the Notes are outstanding.

10.3 NOTICE TO NOTEHOLDERS IF DEFAULT OCCURS. If an Event of Default occurs of which the Trustee is by Section 10.1(l) hereof required to take notice or if notice of an Event of Default shall be or is given as in Section 10.1(l) hereof provided, then the Trustee shall promptly, and in any event, within two Business Days, give written notice thereof by overnight mail to the Holders of all Notes Outstanding, shown by the list of Noteholders required by Section 2.9 hereof to be kept at the office of the Trustee.

10.4 INTERVENTION BY TRUSTEE. In any judicial proceeding concerning the issuance or the payment of the Notes to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Holders of the Notes, the Trustee may intervene on behalf of Noteholders and shall do so if requested in writing by the owners of at least 25% of the Outstanding Note Amount, subject to receipt of satisfactory indemnity as contemplated by Section 10.1(p).

10.5 MERGER OR CONSOLIDATION OF TRUSTEE. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding; provided such successor Trustee accepts the duties and responsibilities hereunder and is eligible pursuant to Section 10.9.

10.6 RESIGNATION BY TRUSTEE. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving sixty (60) days' written notice by registered or certified mail to the Issuer, the Servicers, the Supervisory Servicer, the Noteholders, the Rating Agency and by first-class mail (postage prepaid) to the Holders of the Notes and such resignation shall take effect upon the appointment of a successor Trustee by the Issuer pursuant to Section 10.8 and in accordance with Section 10.9 hereof. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor Trustee approved by the Servicers, the Supervisory Servicer and the Required Noteholders such approval not to be unreasonably withheld or delayed. If no successor Trustee shall have been so appointed and have accepted appointment within sixty (60) days of the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribed, appoint a successor Trustee.

10.7 REMOVAL OF TRUSTEE. The Trustee may be removed at any time, by the Issuer, provided no Event of Default then exists and is continuing, by an instrument or concurrent instruments in writing delivered to the Trustee, the Supervisory Servicer, the Rating Agency, and the Noteholders.

10.8 APPOINTMENT OF SUCCESSOR TRUSTEE; TEMPORARY TRUSTEE. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the Issuer with the consent of the Required Noteholders not to be unreasonably withheld by an instrument in writing signed by the Issuer and a copy of which shall be delivered personally or sent by registered mail to the Noteholders. Nevertheless, in case of such vacancy, the Issuer by resolution may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed in the manner above provided; and any such temporary Trustee so appointed by the Issuer shall immediately and without further act be superseded by

the Trustee so appointed. Notice of the appointment of a successor Trustee shall be given in the same manner as provided by Section 10.6 hereof with respect to the resignation of a Trustee; provided in each case any successor Trustee shall meet the eligibility requirements of Section 10.9.

10.9 CONCERNING ANY SUCCESSOR TRUSTEE. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its or his predecessor and also to the Issuer, the Servicers, the Supervisory Servicer, the Noteholders and the Rating Agency an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee hereunder to its or his successor, including, but not limited to, a transfer of the Loans and the Trustee Loan Files. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed or recorded by the successor Trustee in each recording office where this Indenture shall have been filed or recorded. Any successor Trustee shall be required to (i) have corporate trust powers, (ii) have not less than $100,000,000 in capital and surplus, (iii) be a member of the Federal Deposit Insurance Corporation, and (iv) have a long-term unsecured debt rating from the Rating Agency of at least "Baa3".

10.10 DESIGNATION AND SUCCESSION OF PAYING AGENTS. The Paying Agent for the Notes shall be the Trustee. Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within thirty (30) days thereafter, appoint a bank or trust company having corporate trust powers and having a long-term unsecured debt rating from the Rating Agency of at least "Baa3" to fill such vacancy; provided, however, that if the Issuer shall fail to appoint such Paying Agent within said period, the Trustee shall make such appointment, subject to the foregoing eligibility requirements. Other Paying Agents or fiscal agents may be appointed pursuant by the Issuer if in its discretion additional Paying Agents or fiscal agents are deemed advisable.

The Paying Agents shall enjoy the same protective provisions in the performance of their duties hereunder as are specified in Section 10.1 hereof with respect to the Trustee insofar as such provisions may be applicable.

Notice of the appointment of additional Paying Agents or fiscal agents shall be given in the same manner as provided by Section 10.8 hereof with respect to the appointment of a successor Trustee.

10.11 APPOINTMENT OF CO-TRUSTEE. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of banking corporations or associations to transact business as the Trustee in such jurisdiction. It is recognized that, in case of litigation under this Indenture, the Loans and, in particular, in case of the enforcement thereof on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or Co-Trustee.

Therefore, the Trustee shall have the right to appoint one or more persons to act as its Co-Trustee or Co-Trustees, jointly with the Trustee, of all or any part of the Trust Estate, and to vest in such person or persons, in such capacity, such title to the Trust Estate, or any part thereof, and, subject to the other provisions of this Section 10.11, such powers, duties, obligation, rights and trusts as the Trustee may consider necessary or desirable.

Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the Co-Trustees, as effectively as if given to each of them. Every instrument appointing any Co-Trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument or appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Every such instrument shall be filed with the Trustee.

Any Co-Trustee may, at any time, constitute the Trustee, its agent or attorney-in-fact, with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Agreement on its behalf and in its name. If any Co-Trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor Trustee. No Co-Trustee shall be required to satisfy the eligibility requirements for a successor Trustee set forth in Section 10.9 hereunder and no notice to the Noteholders of the appointment of a Co-Trustee shall be required.

In the event that the Trustee appoints an additional individual or institution as a separate or Co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or Co-Trustee but only to the extent necessary to enable such separate or Co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or Co-Trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Issuer be required by the separate or Co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. In case any separate or Co-Trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such

separate or Co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate or Co-Trustee.

ARTICLE XI

SUPPLEMENTAL INDENTURES

11.1 SUPPLEMENTAL INDENTURES; CONSENT OF NOTEHOLDERS. (a) The Issuer and the Trustee may, with notice to all of the Noteholders and the Rating Agency, enter into an indenture or indentures supplemental to this Indenture for the following purposes:

(1) To specify and determine any matters and things relative to the Notes which are not contrary to or inconsistent with this Indenture and which shall not materially adversely affect the interests of the Noteholders;

(2) To cure any defect, omission, conflict, or ambiguity in this Indenture or between the terms and provisions hereof and any other document executed or delivered in connection herewith;

(3) To grant to or confer upon the Trustee for the benefit of the Noteholders any additional rights, remedies, powers, authority, or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(4) To add to the covenants and agreements of the Issuer in this Indenture other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(5) To add to the limitations and restrictions in this Indenture other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(6) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this Indenture of the revenues arising from the pledge of any moneys, securities, funds or other parts of the Trust Estate;

(7) To amend or modify any provisions of this Indenture required by the Rating Agency to maintain the rating of the Notes; or

(8) To amend or modify any provisions of this Indenture, so long as such amendment or modification does not materially adversely affect the interests of the Noteholders (which may be evidenced by an Opinion of Counsel delivered to the Trustee).

(b) The Issuer and the Trustee may, with the consent of the Required Noteholders and notice to all of the Noteholders and the Rating Agency, enter into an indenture or indentures supplemental to this Indenture for purposes other than those specified in Section

11.1(a); provided, however, that nothing contained in this Section shall permit, or be construed as permitting, without the consent of the Holders of all Notes Outstanding, any change of the Maturity Date or other due date of the principal of or any installment of the interest on any Note issued hereunder, or a reduction in the principal amount of any Note or the Applicable Remittance Rate or Default Rate thereon, or a privilege or priority of any Note or Notes over any other Note or Notes, a reduction in the Outstanding Note Amount required for consent to such supplemental indenture or for any waiver of compliance with the provisions of this Indenture or Events of Default and their consequences, any modification of this Section 11.1(b) or Section 11.1(c) or any modification of this Indenture that would cause the Rating Agency to downgrade the rating of the Notes unless the Noteholders have unanimously consented to such modification and downgrade.

(c) With respect to each supplemental indenture, the Trustee shall be provided a certificate of an Authorized Officer of the Issuer and, if requested by the Trustee, an Opinion of Counsel to the effect that the supplemental indenture is duly authorized under this Article XI and all conditions to its entry have been satisfied, and the Trustee shall be fully protected in its execution and delivery of the supplemental indenture in reliance on such certificate and, if requested, by the Trustee, such opinion. If at any time the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes of Section 11.1(b), the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by registered or certified mail to each Holder of a Note as shown on the list of Noteholders required by Section 2.9 hereof. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall include a copy of the proposed supplemental indenture. If, within sixty (60) days or such longer period as shall be prescribed by the Issuer following the final distribution of such notice, the Required Noteholders at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as herein provided (other than where a unanimous consent is required as described above), no owner of any Note shall have any right to object to any of the terms and provisions contained herein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any supplemental indenture as in this Section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

11.2 NOTICE OF SUPPLEMENTAL INDENTURES. The Trustee shall provide a copy of any Supplemental Indenture executed to each of the Servicers, the Supervisory Servicer, the Noteholders and the Rating Agency.

11.3 AMENDMENTS TO TRANSACTION DOCUMENTS. The Trustee may not enter into or consent to an amendment to any other Transaction Document, except as expressly permitted therein, without the consent of the Required Noteholders.

ARTICLE XII
MISCELLANEOUS

12.1 CONSENTS, ETC., OF NOTEHOLDERS. Any consent, request, direction, approval, objection or other instrument required by this Indenture to be signed and executed by the

Noteholders may be in any number of concurrent writings of similar tenor and may be signed or executed by such Noteholders in person or by agent thereof appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Notes, if made in the following manner, shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Trustee and any Paying Agent with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Notes and the amount or amounts, numbers and other identification of Notes, and the date of holding the same shall be proved by the registration books of the Issuer maintained by the Trustee pursuant to Section 2.9 hereof.

12.2 LIMITATION OF RIGHTS. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Notes is intended or shall be construed to give to any Person other than the parties hereto, and the Holders of the Notes, any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and the Holders of the Notes as herein provided.

12.3 SEVERABILITY. If any one or more of the covenants, agreements, provisions or terms of this Indenture shall be held invalid for any reason whatsoever, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Indenture and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions or terms of this Indenture. The parties hereto further agree that the holding by any court of competent jurisdiction that any remedy pursued by the Trustee hereunder is unavailable or unenforceable shall not affect in any way the ability of the Trustee to pursue any other remedy available to it.

12.4 NOTICES. Any notice, request, complaint, demand, communication or other paper shall be in writing and sufficiently given if addressed to the appropriate Notice Address and delivered by hand delivery or sent by nationally recognized express courier, or mailed by registered mail, postage prepaid, or transmitted by telecopy and shall be effective upon receipt, except when telecopied, in which case, any such communication shall be effective upon telecopy against receipt of answer back or written confirmation thereof. The Issuer and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

12.5 PAYMENTS DUE ON SATURDAYS, SUNDAYS AND HOLIDAYS. In any case where the due date of interest on or principal of the Notes or the date fixed for redemption of any Note shall be other than a Business Day, then payment of interest or principal may be made on the next

Business Day with the same force and effect as if made on the due date or the date fixed for redemption.

12.6 COUNTERPARTS. This Indenture may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

12.7 APPLICABLE PROVISIONS OF LAW. THIS INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

12.8 CAPTIONS. The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Sections of this Indenture.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the Issuer has caused this Indenture to be executed on its behalf by its General Partner and the Trustee, to evidence its acceptance of the trusts created hereunder, has caused this Indenture to be executed as of the date first written above.

PMC JOINT VENTURE, L.P. 2001

By: PMC Joint Venture LLC 2001,
its General Partner

By: /s/ JAN F. SALIT

Jan F. Salit, Executive Vice President

BNY MIDWEST TRUST COMPANY,
as Trustee

By: /s/ ROBERT D. FOLTZ

Robert D. Foltz, Vice President

EXHIBIT A
TO TRUST INDENTURE

FORM OF NOTE

THIS NOTE WAS OFFERED PURSUANT TO EXEMPTIONS FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND STATE SECURITIES LAWS, AND HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AUTHORITY. NO TRANSFER OR SALE OF THIS NOTE SHALL BE MADE UNLESS SUCH TRANSFER OR SALE COMPLIES WITH THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAW. IN THE EVENT THAT THE TRANSFER OF THIS NOTE IS TO BE MADE, BNY MIDWEST TRUST COMPANY (THE "TRUSTEE") SHALL REQUIRE A CERTIFICATE AND, IF REQUIRED BY SECTION 2.9(c) OF THE INDENTURE, MAY REQUIRE AN OPINION OF INDEPENDENT COUNSEL, ACCEPTABLE TO AND IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE TRUSTEE, THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION, DESCRIBING THE APPLICABLE EXEMPTION AND THE BASIS THEREFOR, FROM SAID ACT AND LAWS OR IS BEING MADE PURSUANT TO SAID ACT AND LAWS.

No.: _____ $[ ]

PMC JOINT VENTURE, L.P. 2001
LOAN-BACKED FIXED RATE NOTES

PRIVATE PLACEMENT MATURITY DATE	ISSUE DATE	NOTE RATE	NUMBER
June 26, 2026	June 26, 2001	6.36%	

REGISTERED HOLDER:

PRINCIPAL SUM: $[ ]

PMC JOINT VENTURE, L.P. 2001, a Delaware limited partnership (herein called the "ISSUER"), for value received, hereby promises to pay to the registered owner identified above or registered assigns (the "HOLDER" or "NOTEHOLDER"), on or before the Maturity Date set forth above (subject to any right of prior payment hereinafter mentioned), the principal sum identified above in lawful money of the United States of America, and to pay interest thereon in like money, until payment of such principal sum, as set forth herein. Pursuant to the terms of the Trust Indenture dated as of June 26, 2001 (as the same may be amended and supplemented, the

"INDENTURE") between the Issuer and BNY Midwest Trust Company, as Trustee (the "TRUSTEE"), the Issuer shall pay the Holder on the fifteenth day of each month, commencing on July 15, 2001 or the date this Note is due upon acceleration and ending on the Maturity Date set forth above (each such date herein called a "PAYMENT DATE"), the Principal Distribution Amount (as defined in the Indenture) and accrued interest. To the extent not otherwise defined herein, all capitalized terms shall have the meanings set forth in the Indenture. This Note will bear interest at a per annum rate equal to the Applicable Rate (as defined in the Indenture). The term "INTEREST ACCRUAL PERIOD" means, with respect to a Payment Date, the period from and including the immediately prior Payment Date to but excluding the Payment Date first referred to in this definition (or, in the case of the first Payment Date, from and including the Closing Date to but excluding the first Payment Date). Principal and interest payments will be made on each Payment Date from funds on deposit under the Indenture.

Payments to the Holder shall be made by wire transfer of immediately available funds to the account of such Noteholder and without presentation of the Note or the making of any notations thereon.

This Note is one of a duly authorized issue of notes of the Issuer designated as PMC Joint Venture, L.P. 2001 Loan-Backed Fixed Rate Notes (herein called the "NOTES"), in the initial aggregate principal amount of $75,378,920 issued under and secured by the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Notes, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Issuer thereunder, to all of the provisions of which Indenture the holder of this Note, by acceptance hereof, assents and agrees.

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

This Note shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

The Notes are issuable only as fully registered Notes without coupons. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Notes may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Notes of the same series of other authorized denominations.

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

The Notes are subject to redemption on any Payment Date on or after the date on which the then Outstanding Note Amount is less than 10% of the Outstanding Note Amount on the Closing Date, in whole, but not in part, at the option of the Issuer at a redemption price equal to 100% of the Outstanding Note Amount plus accrued and unpaid interest thereon to the date of redemption at the then Applicable Remittance Rate.

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

The Indenture permits the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of Holders of the Notes under the Indenture at any time by the Issuer with the consent of the Required Noteholders (as defined in the Indenture) and in certain instances only with the consent of all Noteholders. The Indenture also contains provisions permitting Holders of specified percentages in aggregate outstanding principal amount, on behalf of Holders of all the Notes, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note (or any one or more predecessor Notes) shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

The Indenture contains provisions permitting the Issuer and the Trustee to execute supplemental indentures adding provisions to, or changing or eliminating any of the provisions of, the Indenture, subject to the limitations set forth in the Indenture.

The term "ISSUER" as used in this Note includes any successor to the Issuer under the Indenture. This Note is nonrecourse to the Issuer's partners.

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

The Notes are non-recourse obligations of the Issuer and neither the Trustee nor the Noteholders shall have any rights to enforce the payment or performance of the Issuer's obligations hereunder or under the Transaction Documents against the partners of the Issuer or their respective assets. No officer, agent or employee of the Issuer or of any Affiliate of the Issuer, shall in any event be subject to any personal liability for any payments or other amounts due in respect of the Notes or in respect of any obligations of the parties under any of the Transaction Documents.

IN WITNESS WHEREOF, PMC JOINT VENTURE, L.P. 2001 has caused this Note to be executed in its name by the manual or facsimile signature of the President, any Executive Vice President or the Chief Financial Officer of its General Partner and attested by the manual or facsimile signature of the Secretary or Assistant Secretary of its General Partner, all as of the Issue Date set forth above.

PMC JOINT VENTURE, L.P. 2001

By: PMC Joint Venture LLC 2001,
its General Partner

By: /s/ BARRY N. BERLIN

Barry N. Berlin
Chief Financial Officer

Attest:

By: /s/ JAN F. SALIT

Jan F. Salit, Assistant Secretary