

PMC COMMERCIAL TRUST /TX

Form S-4/A

November 10, 2003

Table of Contents

As filed with the Securities and Exchange Commission on November 10, 2003

Registration No. 333-108180

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PMC Commercial Trust

(Exact name of Registrant as specified in its Charter)

Texas

(State or other jurisdiction of incorporation or organization)

6798

(Primary Standard Industrial Classification Code Number)

75-6446078

(I.R.S. Employer Identification No.)

18111 Preston Road, Suite 600

Dallas, Texas 75252
(972) 349-3200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Lance B. Rosemore

Chief Executive Officer
PMC Commercial Trust
18111 Preston Road, Suite 600
Dallas, Texas 75252
(972) 349-3200

(Name, Address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kenneth L. Betts
Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
(214) 740-8000

Steven B. Boehm
Cynthia M. Krus
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-0100

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4/A

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and all conditions to the proposed transaction have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(3)
Common Shares of Beneficial Interest, par value \$.01 per share	4,385,801(1)	N/A	\$55,711,525(2)	\$4,508

- (1) The maximum number of common shares of beneficial interest of PMC Commercial Trust to be issued in the merger of PMC Capital, Inc. with and into PMC Commercial Trust, based on the exchange ratio of one share of PMC Capital, Inc. common stock, par value \$.01 per share, to be exchanged for 0.37 of a common share of beneficial interest of PMC Commercial Trust.
- (2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and calculated pursuant to Rule 457(f) under the Securities Act. Pursuant to Rule 457(f)(1) under the Securities Act, the proposed maximum aggregate offering price of PMC Commercial Trust common shares of beneficial interest was calculated in accordance with Rule 457(c) under the Securities Act as the product of (a) \$4.70, the average of the high and low prices per share of PMC Capital, Inc. common stock as reported on the American Stock Exchange on August 20, 2003, multiplied by (b) 11,853,516, the aggregate number of shares of PMC Capital, Inc. common stock to be converted into PMC Commercial Trust common shares of beneficial interest in the merger, previously paid.
- (3) Determined in accordance with Section 6(b) of the Securities Act at a rate equal to \$80.90 per \$1,000,000 of the proposed maximum offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Subject to Completion, dated November 10, 2003

**PMC
CAPITAL, INC.
18111 Preston Road, Suite 600
Dallas, Texas 75252**

**PMC
COMMERCIAL TRUST
18111 Preston Road, Suite 600
Dallas, Texas 75252**

A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

To the shareholders of PMC Capital, Inc. and PMC Commercial Trust:

PMC Capital, Inc. and PMC Commercial Trust have entered into a merger agreement pursuant to which PMC Commercial has agreed to acquire PMC Capital. If the merger is completed, PMC Capital shareholders will receive 0.37 PMC Commercial common shares of beneficial interest for each share of PMC Capital common stock they own and will hold approximately 40.49% of PMC Commercial's common shares after the merger. PMC Commercial shareholders will continue as shareholders after the merger, holding approximately 59.51% of the outstanding shares of PMC Commercial. Until the merger is completed, the value of PMC Commercial's common shares to be received in the merger will continue to fluctuate. Based upon the closing price of PMC Commercial's common shares on November 7, 2003, 0.37 common shares of PMC Commercial had a value of \$5.24, and the aggregate value of the merger consideration would have been approximately \$62.1 million to PMC Capital shareholders.

PMC Commercial will hold an annual meeting of shareholders on December 30, 2003 at 11:00 a.m. Central time at the principal executive offices of PMC Commercial, located at 18111 Preston Road, Suite 600, Dallas, Texas 75252. At this meeting, shareholders of PMC Commercial will be asked to (1) approve the merger agreement between PMC Commercial and PMC Capital and the transactions contemplated by the merger agreement, including the merger of PMC Capital into PMC Commercial, (2) approve certain amendments to PMC Commercial's declaration of trust, (3) approve the election of seven members of PMC Commercial's board of trust managers, (4) ratify the appointment of PricewaterhouseCoopers LLP as PMC Commercial's independent public accountants, and (5) approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

PMC Capital will hold an annual meeting of shareholders on December 30, 2003 at 9:00 a.m. Central time at the principal executive offices of PMC Capital, located at 18111 Preston Road, Suite 600, Dallas, Texas 75252. At this meeting, shareholders of PMC Capital will be asked to (1) approve the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement, including the merger of PMC Capital into PMC Commercial, (2) elect two directors of PMC Capital, (3) ratify the appointment of PricewaterhouseCoopers LLP as PMC Capital's independent public accountants, and (4) approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

Before the merger can be completed, holders of at least two-thirds of the outstanding PMC Commercial common shares and holders of a majority of the outstanding shares of PMC Capital common stock must vote in favor of the merger agreement and the transactions contemplated by the merger agreement.

Holders of PMC Commercial common shares representing approximately 6.5% of the outstanding common shares of PMC Commercial as of the record date for the annual meeting have agreed to vote the common shares of PMC Commercial owned by them in favor of the merger. PMC Capital shareholders representing approximately 19.9% of the outstanding shares of PMC Capital common stock as of the record date for the annual meeting have agreed to vote the shares of PMC Capital owned by them in favor of the merger.

A special committee of disinterested, independent trust managers of PMC Commercial has evaluated the merits and negotiated the terms of the merger. The special committee has received a written opinion of U.S. Bancorp Piper Jaffray Inc., the special committee's financial advisor, that, as of the date of the opinion, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the

Table of Contents

exchange ratio was fair to PMC Commercial from a financial point of view. A special committee of disinterested, independent directors of PMC Capital has evaluated the merits and negotiated the terms of the merger. The special committee has received a written opinion of A.G. Edwards, the special committee's financial advisor, that, subject to certain qualifications contained in the opinion, the exchange ratio was fair to the holders of PMC Capital common stock from a financial point of view.

The completion of the merger is subject to various other conditions. The terms of the merger and related transactions are more fully described in the enclosed joint proxy statement/ prospectus.

PMC Commercial's common shares are traded on the American Stock Exchange under the symbol PCC, and the closing price of a PMC Commercial common share on November 7, 2003 was \$14.16 per share. PMC Capital's common stock is traded on the American Stock Exchange under the symbol PMC, and the closing price of a share of PMC Capital common stock on November 7, 2003 was \$5.05 per share.

The board of trust managers of PMC Commercial has approved the merger and has determined that the merger is in the best interest of PMC Commercial's shareholders. The board of trust managers recommends that PMC Commercial shareholders vote FOR the merger, the merger agreement and the other transactions contemplated by the merger agreement, and FOR approval of all other items to be voted upon at the annual meeting.

The board of directors of PMC Capital has approved the merger and has determined that the merger is in the best interest of PMC Capital's shareholders. The board of directors recommends that PMC Capital shareholders vote FOR the merger, the merger agreement and the other transactions contemplated by the merger agreement, and FOR approval of all other items to be voted upon at the annual meeting.

This joint proxy statement/ prospectus provides PMC Commercial shareholders and PMC Capital shareholders with detailed information about the annual meetings and the proposed merger. You can also obtain information from publicly available documents filed by PMC Capital and PMC Commercial with the SEC. **PMC Commercial and PMC Capital encourage you to read this entire document carefully, including the section entitled Risk Factors beginning on page 19.**

Your vote is very important. Whether you plan to attend the annual meeting, please take time to vote on the proposal by completing and mailing the enclosed proxy card, or by voting over the telephone or via the Internet.

Sincerely,

/s/ DR. ANDREW S. ROSEMORE

/s/ DR. FREDRIC M. ROSEMORE

Dr. Andrew S. Rosemore
*Chairman of the Board, Executive Vice
President and Chief Operating Officer
PMC Commercial Trust*

Dr. Fredric M. Rosemore
*Chairman of the Board
and Treasurer
PMC Capital, Inc.*

Table of Contents

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this joint proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated November , 2003

and is first being mailed to shareholders on or about November , 2003.

SOURCES OF ADDITIONAL INFORMATION

This joint proxy statement/prospectus includes information also set forth in documents filed by PMC Commercial and PMC Capital with the SEC, and those documents include information about our companies that is not included in or delivered with this document. If you are a shareholder of PMC Capital or PMC Commercial, you can obtain any of those documents filed with the SEC from PMC Capital or PMC Commercial, as the case may be, or through the SEC or the SEC's web site. The address of that site is <http://www.sec.gov>. Documents filed with the SEC are available from the companies, without charge, excluding all exhibits unless specifically incorporated by reference as an exhibit to this document. Shareholders of PMC Capital or PMC Commercial may obtain documents filed with the SEC or documents incorporated by reference in this document by requesting them in writing or by telephone from the appropriate company at the following addresses:

PMC Capital, Inc.
18111 Preston Road, Suite 600
Dallas, TX 75252
Attention: Investor Relations
(972) 349-3256
(800) 486-3223 ext. 3256

PMC Commercial Trust
18111 Preston Road, Suite 600
Dallas, TX 75252
Attention: Investor Relations
(972) 349-3235
(800) 486-3223 ext. 3235

If you would like to request documents, in order to ensure timely delivery, you must do so at least five business days before the date of your annual meeting. This means you must request this information no later than December 22, 2003. If you request any documents, PMC Capital or PMC Commercial will mail them to you by first class mail, or another equally prompt means, within one business day after it receives your request.

Table of Contents

PMC COMMERCIAL TRUST

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On December 30, 2003

To the shareholders of PMC Commercial Trust:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of PMC Commercial Trust, a Texas real estate investment trust (PMC Commercial), will be held at 11:00 a.m., Central time, on Tuesday, December 30, 2003, at 18111 Preston Road, Suite 600, Dallas, Texas, for the following purposes:

1. To consider and approve the Agreement and Plan of Merger, dated March 27, 2003, by and between PMC Commercial Trust and PMC Capital, Inc., a Florida corporation (PMC Capital), and the transactions contemplated by the merger agreement, including without limitation, the merger of PMC Capital with and into PMC Commercial.

2. To consider and approve the proposed amendments to PMC Commercial s declaration of trust to:

provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders; and

provide that the board of trust managers may amend, repeal or adopt new bylaws.

3. To consider and elect seven members of PMC Commercial s board of trust managers to hold office until the next annual meeting of shareholders and until their respective successors have been elected and qualified.

4. To consider and ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of PMC Commercial for the year ending December 31, 2003.

5. To consider the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

6. To transact any other business as may properly come before the annual meeting or any adjournments or postponements of that meeting.

Only PMC Commercial shareholders of record at the close of business on November 10, 2003, the record date for the annual meeting, may vote at the annual meeting and any adjournments or postponements of the annual meeting. A complete list of PMC Commercial shareholders of record entitled to vote at the annual meeting will be available for the 10 days before the annual meeting at our executive offices for inspection for proper purposes by PMC Commercial shareholders during ordinary business hours.

Your vote is very important. The PMC Commercial board of trust managers has unanimously approved the merger agreement and the merger of PMC Capital with and into PMC Commercial, and recommends that you vote for all of the proposals set forth above, including the merger agreement and the merger. Whether or not you plan to attend the annual meeting, please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. You may also be able to vote by telephone or the Internet if so instructed by a broker, bank or other nominee.

Table of Contents

For more information about the merger described above and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/ prospectus and the merger agreement attached to it as Annex A.

By order of the PMC Commercial Trust
Board of Trust Managers

/s/ LANCE B. ROSEMORE

Lance B. Rosemore
Secretary

Dallas, Texas
November 10, 2003

Table of Contents

PMC CAPITAL, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On December 30, 2003

To the shareholders of PMC Capital, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of PMC Capital, Inc., a Florida corporation (**PMC Capital**), will be held at 9:00 a.m., Central time, on Tuesday, December 30, 2003, at 18111 Preston Road, Suite 600, Dallas, Texas, for the following purposes:

1. To consider and approve the Agreement and Plan of Merger, dated March 27, 2003, by and between PMC Capital, Inc. and PMC Commercial Trust, a Texas real estate investment trust (**PMC Commercial**), and the transactions contemplated by the merger agreement, including without limitation, the merger of PMC Capital with and into PMC Commercial.

2. To consider and elect two members of PMC Capital's board of directors, each to hold office for a term of three years and until their respective successors have been elected and qualified.

3. To consider and ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of PMC Capital for the year ending December 31, 2003.

4. To approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

5. To transact any other business as may properly come before the annual meeting or any adjournments or postponements of that meeting.

Only PMC Capital shareholders of record at the close of business on November 10, 2003, the record date for the annual meeting, may vote at the annual meeting and any adjournments or postponements of the annual meeting. A complete list of PMC Capital shareholders of record entitled to vote at the annual meeting will be available for the 10 days before the annual meeting at our executive offices for inspection for proper purposes by PMC Capital shareholders during ordinary business hours.

Your vote is very important. The PMC Capital board of directors has unanimously approved the merger agreement and the merger of PMC Capital with and into PMC Commercial, and recommends that you vote for all of the proposals set forth above, including the merger agreement and the merger. Whether or not you plan to attend the annual meeting, please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. You may also be able to vote by telephone or the Internet if so instructed by a broker, bank or other nominee.

For more information about the merger described above and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/ prospectus and the merger agreement attached to it as Annex A.

By order of the PMC Capital, Inc.
Board of Directors

/s/ LANCE B. ROSEMORE

Lance B. Rosemore
Secretary

Dallas, Texas
November 10, 2003

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE MERGER

SUMMARY

RISK FACTORS

Risks Related to the Merger and the Combined Company

Risks Related to the Business of Both PMC Commercial and PMC Capital

Risks Related to PMC Commercial

Risks Related to PMC Capital

SELECTED HISTORICAL FINANCIAL DATA

Selected Historical Financial Data of PMC Commercial

Selected Historical Financial Data of PMC Capital

SELECTED STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA AND COMPARATIVE PER SHARE DATA

Selected Unaudited Proforma Consolidated Financial Data

Comparative Per Share Data

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

THE PMC COMMERCIAL ANNUAL MEETING

Date, Time and Place of PMC Commercial Annual Meeting

Purpose of the PMC Commercial Annual Meeting

Record Date

Quorum and Adjournments

Vote Required

Voting Agreements

Voting of Proxies

Revocability of Proxies

Solicitation of Proxies

Dissenters' Rights

THE PMC CAPITAL ANNUAL MEETING

Date, Time and Place of PMC Capital Annual Meeting

Purpose of the PMC Capital Annual Meeting

Record Date

Quorum and Adjournments

Vote Required

Voting Agreements

Voting of Proxies

Revocability of Proxies

Solicitation of Proxies

Dissenters' Rights

THE MERGER PROPOSAL

General Description of the Merger

Background of the Merger

PMC Commercial Reasons for the Merger

Recommendation of the PMC Commercial Special Committee and the PMC Commercial Board of Trust Managers

PMC Capital Reasons for the Merger

Recommendation of the PMC Capital Special Committee and the PMC Capital Board of Directors

Opinion of U.S. Bancorp Piper Jaffray

Opinion of A.G. Edwards

Interests of Certain Persons in the Merger

Equity Compensation Plans

Listing of PMC Commercial Common Shares

Transfer Agent and Registrar

Dividends and Distributions

Material U.S. Federal Income Tax Consequences of the Merger

Accounting Treatment

Regulatory Approvals Required to Complete the Merger

Dissenters' Rights

Resale of PMC Commercial Common Shares

DESCRIPTION OF THE MERGER AGREEMENT

Structure of the Merger

Closing: Completion of the Merger

Merger Consideration

Exchange of PMC Capital Stock Certificates for PMC Commercial Share Certificates

Treatment of PMC Capital Stock Options

Board of Trust Managers and Officers of PMC Commercial

Representations and Warranties of PMC Capital and PMC Commercial

Conduct of Business of PMC Capital and PMC Commercial Pending the Merger

Additional Covenants Pending Completion of the Merger

Pre-Merger Dividends

Conditions to the Merger

Termination of the Merger Agreement

Expenses: Termination Fees

Waiver and Amendment of the Merger Agreement

Indemnification: Directors and Officers' Insurance

THE VOTING AGREEMENTS

MARKET PRICE AND DIVIDEND INFORMATION

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET June 30, 2003

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2003

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2002

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME

PMC COMMERCIAL BUSINESS

Introduction

PMC Commercial's Business Following the Merger

Lending Activities

Property Ownership

Structured Loan Transactions

Investment Management

Tax Status

Employees

Customers

Properties

Legal Proceedings

PMC COMMERCIAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recent Developments

Business

Portfolio Information

Critical Accounting Policies and Estimates

Results of Operations

Cash Flow Analysis

Liquidity and Capital Resources

Summarized Contractual Obligations, Commitments and Contingencies

Impact of Recently Issued Accounting Pronouncements

Related Party Transactions

Equity and Dividends

Funds From Operations

PMC COMMERCIAL QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Loans Receivable

Notes Payable and Revolving Credit Facility

Retained Interests

PMC COMMERCIAL MANAGEMENT

Trust Managers of PMC Commercial

Meetings and Committees of the PMC Commercial Board of Trust Managers

Executive Officers of PMC Commercial

Compensation of Trust Managers

Compensation Committee Interlocks and Insider Participation

Annual and Long-Term Compensation

Option Grants

Option Exercises and Year End Option Values

Section 16(a) Beneficial Ownership Reporting Compliance

Certain Relationships and Related Transactions

PMC COMMERCIAL SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

Security Ownership of Management

PMC COMMERCIAL PERFORMANCE GRAPH

APPROVAL OF PROPOSED AMENDMENTS TO PMC COMMERCIAL S DECLARATION OF TRUST

Expansion of Shareholder Voting Rights

Amending, Repealing or Adopting Bylaws

Vote Required

Recommendation of PMC Commercial Board of Trust Managers

RATIFICATION OF PMC COMMERCIAL S INDEPENDENT PUBLIC ACCOUNTANTS

Principal Accounting Firm Fees

Audit Committee Report

Shareholder Proposals

PMC CAPITAL BUSINESS

Introduction

Lending Activities

Structured Loan Transactions

Advisory Services

Regulatory Overview

Employees

Customers

Properties

Legal Proceedings

PMC CAPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recent Developments

General

Operating Overview

Economic Factors

Portfolio Information

Critical Accounting Policies and Estimates

Results of Operations

Cash Flow Analysis

Liquidity and Capital Resources

Summarized Contractual Obligations, Commitments and Contingencies

Impact of Recently Issued Accounting Pronouncements

Related Party Transactions

Quarterly Results

Dividends

PMC CAPITAL QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Loans Receivable

Notes and Debentures Payable and Revolving Credit Facility

Retained Interests

PMC CAPITAL MANAGEMENT

Board of Directors of PMC Capital

Election of PMC Capital's Directors

Nominations for Election to the Board of Directors of PMC Capital

Meetings and Committees of PMC Capital's Board of Directors

Executive Officers of PMC Capital

Compensation of Directors

Compensation Committee Interlocks and Insider Participation

Management Compensation

Option Grants

Option Exercises and Year End Option Values

Employment Agreements

Section 16(a) Beneficial Ownership Reporting Compliance

PMC CAPITAL SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Dollar Range of Securities Beneficially Owned By Directors

RATIFICATION OF PMC CAPITAL'S INDEPENDENT PUBLIC ACCOUNTANTS

Principal Accounting Firm Fees

Audit Committee Report

Shareholder Proposals

DESCRIPTION OF PMC COMMERCIAL SHARES OF BENEFICIAL INTEREST

General

Restrictions On Transfer

COMPARISON OF SHAREHOLDER RIGHTS

U.S. FEDERAL INCOME TAX CONSEQUENCES

General

REIT Qualification

Taxation as a REIT

Failure to Qualify as a REIT

Taxable Mortgage Pools

Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends

Taxation of Taxable U.S. Shareholders

Backup Withholding

Taxation of Tax-Exempt Entities

Taxation of Foreign Investors

State and Local Taxes

LEGAL MATTERS

EXPERTS

OTHER MATTERS

WHERE YOU CAN FIND MORE INFORMATION

INDEX TO FINANCIAL STATEMENTS

ANNEX A

ANNEX B

ANNEX C

ANNEX D

PART II INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 20. Indemnification of Trust Managers and Officers

Item 21. Exhibits and Financial Statement Schedules

Item 22. Undertakings

SIGNATURES

EX-5.1 Opinion/Consent of Locke Liddell & Sapp LLP

EX-8.1 Opinion/Consent of Locke Liddell & Sapp LLP

EX-10.1 Voting Agreement

EX-23.1 Consent of PricewaterhouseCoopers LLP

EX-23.2 Consent of PricewaterhouseCoopers LLP

EX-99.3 Consent of U.S. Bancorp Piper Jaffray Inc.

EX-99.4 Consent of A.G. Edwards & Sons, Inc

EX-99.5 Form of Proxy Card of PMC Commercial Trust

EX-99.6 Form of Proxy Card of PMC Capital, Inc.

EX-99.7 Consent of Fredric M. Rosemore

EX-99.8 Consent of Theodore J. Samuel

EX-99.9 Consent of Thomas Hamill

EX-99.10 Consent of Barry A. Imber

Table of Contents**TABLE OF CONTENTS**

	Page
QUESTIONS AND ANSWERS ABOUT THE MERGER	1
SUMMARY	7
RISK FACTORS	19
Risks Related to the Merger and the Combined Company	19
Risks Related to the Business of Both PMC Commercial and PMC Capital	24
Risks Related to PMC Commercial	31
Risks Related to PMC Capital	33
SELECTED HISTORICAL FINANCIAL DATA	36
Selected Historical Financial Data of PMC Commercial	36
Selected Historical Financial Data of PMC Capital	37
SELECTED STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA AND COMPARATIVE PER SHARE DATA	38
Selected Unaudited Proforma Consolidated Financial Data	38
Comparative Per Share Data	39
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	39
THE PMC COMMERCIAL ANNUAL MEETING	40
Date, Time and Place of PMC Commercial Annual Meeting	40
Purpose of the PMC Commercial Annual Meeting	40
Record Date	41
Quorum and Adjournments	41
Vote Required	41
Voting Agreements	42
Voting of Proxies	42
Revocability of Proxies	42
Solicitation of Proxies	42
Dissenters' Rights	43
THE PMC CAPITAL ANNUAL MEETING	43
Date, Time and Place of PMC Capital Annual Meeting	43
Purpose of the PMC Capital Annual Meeting	43
Record Date	43
Quorum and Adjournments	43
Vote Required	44
Voting Agreements	44
Voting of Proxies	44
Revocability of Proxies	45
Solicitation of Proxies	45
Dissenters' Rights	45
THE MERGER PROPOSAL	45
General Description of the Merger	45
Background of the Merger	46
PMC Commercial Reasons for the Merger	51

Table of Contents

	Page
Recommendation of the PMC Commercial Special Committee and the PMC Commercial Board of Trust Managers	54
PMC Capital Reasons for the Merger	54
Recommendation of the PMC Capital Special Committee and the PMC Capital Board of Directors	58
Opinion of U.S. Bancorp Piper Jaffray	58
Opinion of A.G. Edwards	66
Interests of Certain Persons in the Merger	73
Equity Compensation Plans	74
Listing of PMC Commercial Common Shares	74
Transfer Agent and Registrar	74
Dividends and Distributions	74
Material U.S. Federal Income Tax Consequences of the Merger	74
Accounting Treatment	76
Regulatory Approvals Required to Complete the Merger	76
Dissenters' Rights	77
Resale of PMC Commercial Common Shares	78
DESCRIPTION OF THE MERGER AGREEMENT	79
Structure of the Merger	79
Closing; Completion of the Merger	79
Merger Consideration	79
Exchange of PMC Capital Stock Certificates for PMC Commercial Share Certificates	79
Treatment of PMC Capital Stock Options	80
Board of Trust Managers and Officers of PMC Commercial	80
Representations and Warranties of PMC Capital and PMC Commercial	80
Conduct of Business of PMC Capital and PMC Commercial Pending the Merger	81
Additional Covenants Pending Completion of the Merger	82
Pre-Merger Dividends	83
Conditions to the Merger	84
Termination of the Merger Agreement	87
Expenses; Termination Fees	88
Waiver and Amendment of the Merger Agreement	90
Indemnification; Directors' and Officers' Insurance	90
THE VOTING AGREEMENTS	92
MARKET PRICE AND DIVIDEND INFORMATION	93
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION	94
Unaudited Pro Forma Consolidated Balance Sheet June 30, 2003	95
Notes to Unaudited Pro Forma Consolidated Balance Sheet	96
Unaudited Pro Forma Consolidated Statement of Income for the Six Months Ended June 30, 2003	100
Unaudited Pro Forma Consolidated Statement of Income for the Year Ended December 31, 2002	101
Notes to Unaudited Pro Forma Consolidated Statements of Income	102

Table of Contents

	Page
PMC COMMERCIAL BUSINESS	106
Introduction	106
PMC Commercial's Business Following the Merger	106
Lending Activities	107
Property Ownership	113
Structured Loan Transactions	113
Investment Management	117
Tax Status	118
Employees	118
Customers	119
Properties	119
Legal Proceedings	120
PMC COMMERCIAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	121
Recent Developments	121
Business	121
Portfolio Information	125
Critical Accounting Policies and Estimates	129
Results of Operations	131
Cash Flow Analysis	138
Liquidity and Capital Resources	139
Summarized Contractual Obligations, Commitments and Contingencies	142
Impact of Recently Issued Accounting Pronouncements	144
Related Party Transactions	145
Equity and Dividends	147
Funds from Operations	147
PMC COMMERCIAL QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	149
Loans Receivable	149
Notes Payable and Revolving Credit Facility	149
Retained Interests	151
PMC COMMERCIAL MANAGEMENT	151
Trust Managers of PMC Commercial	151
Meetings and Committees of the PMC Commercial Board of Trust Managers	154
Executive Officers of PMC Commercial	155
Compensation of Trust Managers	155
Compensation Committee Interlocks and Insider Participation	156
Annual and Long-Term Compensation	156
Option Grants	156
Option Exercises and Year End Option Values	156
Section 16(a) Beneficial Ownership Reporting Compliance	157
Certain Relationships and Related Transactions	157

Table of Contents

	Page
PMC COMMERCIAL SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	158
Security Ownership of Certain Beneficial Owners	158
Security Ownership of Management	159
PMC COMMERCIAL PERFORMANCE GRAPH	160
APPROVAL OF PROPOSED AMENDMENTS TO PMC COMMERCIAL S DECLARATION OF TRUST	160
Expansion of Shareholder Voting Rights	161
Amending, Repealing or Adopting Bylaws	161
Vote Required	162
Recommendation of PMC Commercial Board of Trust Managers	162
RATIFICATION OF PMC COMMERCIAL S INDEPENDENT PUBLIC ACCOUNTANTS	163
Principal Accounting Firm Fees	163
Audit Committee Report	163
Shareholder Proposals	164
PMC CAPITAL BUSINESS	165
Introduction	165
Lending Activities	166
Structured Loan Transactions	170
Advisory Services	174
Regulatory Overview	175
Employees	178
Customers	179
Properties	179
Legal Proceedings	179
PMC CAPITAL MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	180
Recent Developments	180
General	180
Operating Overview	182
Economic Factors	183
Portfolio Information	185
Critical Accounting Policies and Estimates	190
Results of Operations	194
Cash Flow Analysis	203
Liquidity and Capital Resources	204
Summarized Contractual Obligations, Commitments and Contingencies	207
Impact of Recently Issued Accounting Pronouncements	209
Related Party Transactions	209
Quarterly Results	212
Dividends	212

Table of Contents

	Page
PMC CAPITAL QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	213
Loans Receivable	213
Notes and Debentures Payable and Revolving Credit Facility	214
Retained Interests	215
PMC CAPITAL MANAGEMENT	216
Board of Directors of PMC Capital	216
Election of PMC Capital's Directors	217
Nominations for Election to the Board of Directors of PMC Capital	217
Meetings and Committees of PMC Capital's Board of Directors	217
Executive Officers of PMC Capital	218
Compensation of Directors	218
Compensation Committee Interlocks and Insider Participation	219
Management Compensation	219
Option Grants	220
Option Exercises and Year End Option Values	220
Employment Agreements	220
Section 16(a) Beneficial Ownership Reporting Compliance	221
PMC CAPITAL SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	221
Dollar Range of Securities Beneficially Owned by Directors	222
RATIFICATION OF PMC CAPITAL'S INDEPENDENT PUBLIC ACCOUNTANTS	223
Principal Accounting Firm Fees	223
Audit Committee Report	223
Shareholder Proposals	224
DESCRIPTION OF PMC COMMERCIAL SHARES OF BENEFICIAL INTEREST	225
General	225
Restrictions on Transfer	226
COMPARISON OF SHAREHOLDER RIGHTS	227
U.S. FEDERAL INCOME TAX CONSEQUENCES	243
General	243
REIT Qualification	244
Taxation as a REIT	251
Failure to Qualify as a REIT	253
Taxable Mortgage Pools	253
Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends	254
Taxation of Taxable U.S. Shareholders	254
Backup Withholding	256
Taxation of Tax-Exempt Entities	256
Taxation of Foreign Investors	257
State and Local Taxes	258
LEGAL MATTERS	259
EXPERTS	259
OTHER MATTERS	259

Table of Contents

	Page
WHERE YOU CAN FIND MORE INFORMATION	259
INDEX TO FINANCIAL STATEMENTS	F-1
ANNEXES	
ANNEX A Agreement and Plan of Merger, as amended	
ANNEX B Amendment to Declaration of Trust of PMC Commercial Trust	
ANNEX C Opinion of U.S. Bancorp Piper Jaffray Inc.	
ANNEX D Opinion of A.G. Edwards & Sons, Inc.	

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: When and where are the annual shareholder meetings?

A: The annual meeting of PMC Commercial shareholders will take place on Tuesday, December 30, 2003, at 11:00 a.m. Central time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

The annual meeting of PMC Capital shareholders will take place on Tuesday, December 30, 2003, at 9:00 a.m. Central time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Q: What is happening at each annual meeting?

A: PMC Commercial shareholders are being asked to vote on the following items at the PMC Commercial annual meeting:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The approval of proposed amendments to PMC Commercial's declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders; and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.

The election of seven members of the PMC Commercial board of trust managers.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

PMC Capital shareholders are being asked to vote on the following items at the PMC Capital annual meeting:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The election of two members of the PMC Capital board of directors.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Capital for 2003.

The approval of the postponement or adjournment of the PMC Capital annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Capital annual meeting or any adjournments or postponements of that meeting.

As of the PMC Capital record date, PMC Capital directors and officers held and were entitled to vote shares of PMC Capital common stock representing approximately 19.9% of the outstanding shares of common stock of PMC Capital. Each of these directors and officers has agreed to vote his or her PMC Capital shares in favor of the approval of the merger agreement and the merger as long as the merger agreement is in effect.

As of the PMC Commercial record date, PMC Commercial trust managers and officers held and were entitled to vote approximately 6.5% of PMC Commercial common shares outstanding. Each of these trust managers and officers has agreed to vote his or her PMC

Commercial common shares in favor of the approval of the merger agreement and the merger as long as the merger agreement is in effect.

Table of Contents

Q: What will happen in the merger?

A: If the merger is approved and all other conditions to the merger have been satisfied or waived, PMC Capital will merge with and into PMC Commercial. As a result of the merger:

PMC Capital will cease to exist as a matter of law, and PMC Commercial will survive the merger and own and operate the businesses of PMC Capital and its subsidiaries under the name PMC Commercial Trust. Following the merger, PMC Commercial intends to continue to qualify as a Texas real estate investment trust (REIT).

Q: Why are PMC Commercial and PMC Capital proposing to merge?

A: PMC Commercial and PMC Capital believe that the merger will provide important strategic and financial benefits to PMC Commercial and PMC Capital and their shareholders.

From PMC Commercial's point of view, these benefits include:

Larger Market Capitalization PMC Commercial expects that the larger equity market capitalization of the combined company would help create new business flexibility and earnings stability.

Stabilization of cash flow PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately increase PMC Commercial's cash available for distribution.

Support for revenue stream PMC Commercial believes that PMC Commercial's greater size resulting from the merger would help maintain PMC Commercial's revenue stream.

Internal management PMC Commercial anticipates that becoming internally managed would provide cost savings opportunities and lessen or eliminate any potential conflict of interest with PMC Capital. PMC Commercial's decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that PMC Commercial will achieve any cost savings.

Fairness Opinion The PMC Commercial special committee received a written opinion from U.S. Bancorp Piper Jaffray Inc. (U.S. Bancorp Piper Jaffray), its financial advisor, that, as of March 27, 2003 and as updated as of November 10, 2003, based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the exchange ratio of 0.37 was fair, from a financial point of view, to PMC Commercial.

From PMC Capital's point of view, these benefits include:

Exchange ratio PMC Capital received a written opinion from A.G. Edwards & Sons (A.G. Edwards), its financial advisor, that, as of March 27, 2003 and updated as of November 10, 2003, the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital's shareholders. PMC Capital also asked A.G. Edwards to analyze the financial fairness of the merger against comparable transactions and available strategic alternatives. PMC Capital considered this information in light of the historical market prices of the PMC Capital common stock and PMC Commercial common shares.

Future environment of the small business lending industry PMC Capital expects that the merger would mitigate some of the present and possible future economic and competitive risks relating to the small business lending industry in which PMC Capital operates.

Need to increase capital base in a cost-effective manner PMC Capital expects that the merger would allow PMC Capital to increase its capital base at a reduced cost to achieve operating efficiencies. PMC Capital's decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that any cost savings will be achieved.

Need to diversify investment portfolio PMC Capital believes that the merger would diversify PMC Capital's investment assets to provide PMC Capital shareholders with greater earnings performance and operating and dividend stability.

Table of Contents

Offering a stake in a larger company The combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investor interest as well as potentially increase the trading volume of the PMC Commercial common shares to be received by PMC Capital shareholders in the merger, as compared to the trading volume of PMC Capital common stock before the merger.

Reduction in complexity of corporate structure and elimination of potential conflicts of interest PMC Capital believes that the merger would simplify PMC Capital's complex business structure. It would also help to eliminate potential conflicts of interest arising out of transactions between PMC Commercial and PMC Capital and from having common members of management and two common board members.

Q: What will PMC Capital shareholders receive in the merger?

A: Each PMC Capital shareholder will receive 0.37 of a common share of beneficial interest of PMC Commercial for each share of PMC Capital common stock owned. For example, if a PMC Capital shareholder currently owns 100 shares of PMC Capital common stock, then, if the merger is consummated, the shareholder will receive 37 common shares of beneficial interest of PMC Commercial in exchange for the 100 shares of PMC Capital common stock.

Until the merger is completed, the value of PMC Commercial common shares to be received in the merger will continue to fluctuate. On March 27, 2003, the last full trading day before the public announcement of the proposed merger, the closing price of a PMC Commercial common share of beneficial interest on the American Stock Exchange was \$13.20. Based upon this closing price, 0.37 common shares of PMC Commercial had a value of \$4.88, and the aggregate value of the merger would have been approximately \$57.9 million. On November 7, 2003, the most recent practicable date prior to the printing of this joint proxy statement/ prospectus, the closing price of a PMC Commercial common share of beneficial interest was \$14.16, and the closing price of a share of PMC Capital common stock on the American Stock Exchange was \$5.05. Based upon this closing price, 0.37 common shares of PMC Commercial had a value of \$5.24, and the aggregate value of the merger would have been \$62,102,941.

Each existing shareholder of PMC Commercial will continue to own the common shares of beneficial interest that such shareholder owned before the merger.

Q: Are shareholders able to exercise dissenters' rights?

A: No. Shareholders of PMC Commercial and PMC Capital will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at the annual meetings. Any shareholder may abstain from or vote against any of the matters to be voted on at the annual meetings.

Q: When do you expect to complete the merger?

A: We are working to complete the merger during the first quarter of 2004 and expect it to be effective no later than February 29, 2004.

Q: How will the combined company's business be different?

A: PMC Commercial and PMC Capital both originate loans to businesses in the limited service hospitality industry. Following the merger, PMC Commercial intends to combine its limited service hospitality lending business with the established lending businesses of PMC Capital and its subsidiaries. PMC Commercial believes that the combined company will benefit from the larger size, economies of scale, greater financial resources and diversity of product lines to compete more effectively in the marketplace. The economies of scale will be generated through eliminating duplicate expenses related to maintaining separate corporate entities, separate books and records, and separate boards, preparing separate audits and complying with investment management and loan origination agreements. PMC Commercial also believes that the larger capital base may enable it to make larger loans to businesses in the limited service hospitality industry. PMC Commercial also will have the combined income streams of the merged businesses.

Table of Contents

Q: How will the combined company be managed?

A: Following the merger, PMC Commercial will be internally managed by the same team that externally manages PMC Commercial today.

Q: What will be the composition of the PMC Commercial board of trust managers following the merger?

A: The post-merger board of trust managers of PMC Commercial will consist of the trust managers elected by the shareholders at the annual meeting and Thomas Hamill, Barry A. Imber, Fredric M. Rosemore and Theodore J. Samuel, all of whom are currently directors of PMC Capital.

Q: What are the U.S. Federal income tax consequences of the merger?

A: PMC Commercial and PMC Capital have structured the merger to be a reorganization for U.S. Federal income tax purposes. PMC Capital and PMC Commercial will not be obligated to complete the merger unless they receive legal opinions to the effect that the merger qualifies as a reorganization for U.S. Federal income tax purposes. Accordingly, PMC Capital shareholders and PMC Commercial shareholders will not recognize gain or loss for U.S. Federal income tax purposes in the transaction. You are strongly urged to consult with your tax advisor to determine the particular U.S. Federal, state, local and foreign income or other tax consequences of the merger to you.

Q: Who must approve the merger?

A: In addition to the approvals by the PMC Commercial board of trust managers and the PMC Capital board of directors, each of which has already been obtained, the merger must be approved by the PMC Commercial shareholders, the PMC Capital shareholders and the U.S. Small Business Administration (SBA). Also, PMC Capital must obtain exemptive relief from the SEC. PMC Capital has submitted filings to the SEC and the SBA. There can be no assurance such approvals will be granted.

Q: What shareholder vote is required to approve the items to be voted on at each annual meeting, including the merger?

A: With respect to the PMC Commercial annual meeting:

the affirmative vote of the holders of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to approve the merger agreement and the merger;

the affirmative vote of the holders of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to approve the amendments to PMC Commercial s declaration of trust;

the affirmative vote of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to elect PMC Commercial trust managers; and

on each other matter to be acted on, the approval vote of a majority of PMC Commercial common shares represented and voting at the meeting is required to approve such matter.

With respect to the PMC Capital annual meeting:

the affirmative vote of the holders of a majority of the shares of PMC Capital common stock outstanding and entitled to vote (5,926,759 shares) is required to approve the merger agreement and the merger;

the two nominees for director receiving the highest number of votes cast by holders of shares of PMC Capital common stock will be elected as directors; and

on each other matter to be voted on, for the PMC Capital shareholders to approve such matter, the number of votes cast for such matter must exceed the number of votes cast against such matter.

Q: Do the boards recommend approval of the merger proposal?

A: Yes. Based on the recommendation of their respective special committees, the board of trust managers of PMC Commercial and the board of directors of PMC Capital each unanimously approved and adopted

4

Table of Contents

the merger agreement and the transactions contemplated by the merger agreement and recommends that you vote for approval of these matters.

The board of trust managers of PMC Commercial formed a special committee of four independent trust managers with no relationship to PMC Capital, consisting of Nathan G. Cohen, Roy H. Greenberg, Irving Munn and Ira Silver. The board of directors of PMC Capital also formed a special committee of four PMC Capital directors, consisting of Irvin M. Borish, Barry A. Imber, Thomas Hamill and Theodore J. Samuel, none of whom was an employee or director of PMC Commercial or an employee of PMC Capital or its affiliates. Both the board of trust managers of PMC Commercial and the board of directors of PMC Capital adopted the recommendation of their respective special committees and recommend that shareholders approve the merger.

Q: Why were special committees formed?

A: The PMC Commercial and PMC Capital special committees were formed to protect the interests of their respective shareholders in the evaluation and negotiation of the merger agreement and the merger from potential conflicts of interest resulting from the common management of PMC Commercial and PMC Capital and the fact that certain officers and directors of PMC Capital also serve on the board of trust managers of PMC Commercial.

Q: What do I need to do now?

A: We urge you to read carefully this joint proxy statement/ prospectus, including its annexes. You also may want to review the documents referenced under Where You Can Find More Information and consult with your accounting, legal and tax advisors.

Q: How do I vote my shares?

A: You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the appropriate annual meeting. PMC Commercial shareholders may also vote over the Internet or the telephone by following the instructions provided with your proxy card. If you are a record shareholder, you may also attend the annual meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted for the approval of the merger agreement and the merger and for all other proposals to be voted on at the annual meeting. If your shares are held in a brokerage account, please see the answer to the next question.

If you fail either to return your proxy card or vote over the telephone or via the Internet, or if you abstain with respect to the merger, the amendments to PMC Commercial's declaration of trust, or the election of trust managers or directors, the effect will be a vote against the merger, the amendments and the trust managers or directors.

With respect to any other matter to be voted on at the PMC Commercial annual meeting, a vote to abstain will have no effect on the outcome of such other matters.

With respect to all other matters to be acted on at the PMC Capital annual meeting, a vote to abstain will have no effect on the outcome of such other matters.

Q: If my PMC Capital shares or PMC Commercial shares are held in a brokerage account or in street name, will my broker vote my shares for me?

A: With respect to the merger proposal and the amendments to PMC Commercial's declaration of trust, if you are a PMC Commercial shareholder, or with respect to the merger proposal, if you are a PMC Capital shareholder, and, in either case, you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them. With respect to all other matters to be approved at the annual meetings, if the broker has indicated on the proxy that it does not have discretionary authority to vote such street name shares, your broker will not be permitted to vote them. Either of these situations results in a broker non-vote.

Table of Contents

A broker non-vote with respect to the merger, the amendments to PMC Commercial's declaration of trust, or the election of PMC Commercial trust managers, will have the effect of a vote against such matters. With respect to all other matters to be voted on at each annual meeting, a broker non-vote will not have any effect on the outcome of such matters.

You should, therefore, provide your broker with instructions on how to vote your shares or arrange to attend the annual meeting and vote your shares in person to avoid a broker non-vote. Shareholders are urged to utilize telephone or Internet voting if their broker has provided them with the opportunity to do so. See your voting instruction form for instructions. If your broker holds your shares and you attend the annual meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the meeting.

Q: What do I do if I want to change my vote?

A: You may change your vote at any time before the vote takes place at your annual meeting. To do so, you may either complete and submit a new proxy card or send a written notice stating that you would like to revoke your proxy. PMC Commercial shareholders may also change your vote if you voted over the telephone or via the Internet simply by revoting. The last recorded vote will be what is counted at the annual meeting. In addition, you may elect to attend the annual meeting and vote in person, as described above.

Q: Should I send in my PMC Capital share certificates now?

A: No. If the merger is completed, written instructions will be sent to you for exchanging your PMC Capital share certificates for the appropriate number of PMC Commercial common share certificates.

Q: Who can I contact with any additional questions?

A: You may call Investor Relations at PMC Commercial at (800) 486-3223, extension 3235 or PMC Capital toll-free at (800) 486-3223, extension 3256.

Q: Where can I find more information about the companies?

A: You can find more information about PMC Commercial and PMC Capital in the documents described under [Where You Can Find More Information](#) on page 259.

Table of Contents

SUMMARY

*This summary highlights selected information from this joint proxy statement/prospectus and may not contain all the information that is important to you. To understand the merger proposal fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document, including the annexes, and the other documents to which we have referred you. For information on how to obtain the documents that we have filed with the SEC, see *Where You Can Find More Information* on page 259.*

PMC Capital, Inc. (page 165)

PMC Capital, a Florida corporation, is a diversified, closed-end management investment company that has elected to operate as a business development company, or BDC, under the Investment Company Act of 1940, as amended. Either directly or through its subsidiaries, PMC Capital is a national lender to small businesses. PMC Capital's investment objective is to achieve current income that is available to pay out to shareholders in the form of quarterly dividends. PMC Capital's operations include originating, servicing and selling commercial loans. PMC Capital operates under several licenses from the SBA. In addition to its lending operations, PMC Capital earns income through its wholly-owned subsidiary, PMC Advisers, Ltd., and its subsidiary, PMC Asset Management, Inc., which evaluate and service loans receivable and other investments pursuant to certain fee arrangements with PMC Commercial. PMC Capital common stock trades on the American Stock Exchange under the symbol PMC. PMC Capital's executive offices are located at 18111 Preston Road, Suite 600, Dallas, Texas 75252 and its telephone number is (972) 349-3200.

PMC Commercial Trust (page 106)

PMC Commercial is a Texas real estate investment trust, or REIT, that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business, principally in the hospitality industry. PMC Commercial's investments also include the ownership of commercial properties in the hospitality industry. PMC Commercial originates loans for commercial real estate primarily in the service, retail, multi-family and manufacturing industries. PMC Commercial generates revenue from the yield earned on its investments, rental income from property ownership and other fee income from its lending activities. PMC Commercial is externally managed by PMC Advisers, Ltd., and its subsidiary, PMC Asset Management, Inc., both of which are direct or indirect wholly-owned subsidiaries of PMC Capital. PMC Commercial is structured to qualify as a REIT for U.S. Federal income tax purposes. PMC Commercial common shares trade on the American Stock Exchange under the symbol PCC. PMC Commercial's executive offices are located at 18111 Preston Road, Suite 600, Dallas, Texas 75252 and its telephone number is (972) 349-3200.

The PMC Commercial Annual Meeting (page 40)

PMC Commercial will hold an annual meeting of its shareholders at 11:00 a.m., Central time, on December 30, 2003, at the principal executive offices of PMC Commercial located at 18111 Preston Road, Suite 600, Dallas, Texas 75252, to vote upon the following items:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The approval of proposed amendments to PMC Commercial's declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders, and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.

The election of seven members of the PMC Commercial board of trust managers.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

Table of Contents

The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

You can vote at the PMC Commercial annual meeting only if you owned PMC Commercial common shares at the close of business on November 10, 2003, which is the record date for the meeting.

The PMC Capital Annual Meeting (page 43)

PMC Capital will hold an annual meeting of its shareholders at 9:00 a.m., Central time, on December 30, 2003, at the principal executive offices of PMC Capital located at 18111 Preston Road, Suite 600, Dallas, Texas 75252, to vote upon the following items:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The election of two members of the PMC Capital board of directors.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Capital for 2003.

The approval of the postponement or adjournment of the PMC Capital annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Capital annual meeting or any adjournments or postponements of that meeting.

You can vote at the PMC Capital annual meeting only if you owned PMC Capital common stock at the close of business on November 10, 2003, which is the record date for the meeting.

The Merger Proposal (page 45)

Under the terms of the merger, PMC Capital will be merged with and into PMC Commercial, PMC Commercial will be the surviving entity, and PMC Capital will no longer exist as a separate corporation. As a result of the merger, all of the assets and liabilities of PMC Capital immediately before the merger will become assets and liabilities of PMC Commercial immediately after the merger, and all of the direct and indirect subsidiaries of PMC Capital will either be dissolved or become direct and indirect subsidiaries of PMC Commercial.

After the merger, persons who owned shares of PMC Capital before the merger will own approximately 40.49% of PMC Commercial common shares outstanding immediately after the merger. As a result of the merger, PMC Commercial will survive as an internally-managed company and will continue the operations conducted by PMC Commercial and PMC Capital before the merger.

The merger agreement is attached as Annex A to this joint proxy statement/ prospectus and is incorporated by reference into this joint proxy statement/ prospectus. We encourage you to read the merger agreement carefully and in its entirety, as it is the principal legal document governing the merger.

Table of Contents

The following diagrams summarize the structure of PMC Commercial and PMC Capital before and after the merger assuming that it is completed as provided in the merger agreement:

PMC Capital Shareholders Will Receive PMC Commercial Common Shares in the Merger (page 225)

PMC Capital Shareholders. If the merger is consummated, each share of PMC Capital common stock will be converted into the right to receive 0.37 of a common share of PMC Commercial.

The closing prices of the PMC Commercial common shares and the PMC Capital common stock, as well as the value of the PMC Commercial common shares to be received in the merger based on the exchange ratio of 0.37, were, on the day before the merger was announced and on the most recent practicable date prior to the printing of this joint proxy statement/ prospectus, as follows:

Date	PMC Commercial Closing Sale Price	PMC Capital Closing Sale Price	Implied Value of each PMC Capital Share
March 27, 2003	\$ 13.20	\$ 4.02	\$ 4.88
November 7, 2003	\$ 14.16	\$ 5.05	\$ 5.24

Table of Contents

The value of the PMC Commercial common shares to be received in the merger will continue to fluctuate and you will not know the value of the PMC Commercial common shares you will receive in the merger at the time you vote.

Please do not send in your stock certificates at this time. You will receive written instructions to do so after the merger is complete.

PMC Commercial Shareholders. If the merger is consummated, each common share of PMC Commercial issued and outstanding prior to the merger will remain outstanding without change.

Completion of the Merger (page 79)

It is currently expected that the merger will be completed after shareholders have approved the merger at the annual meetings, if regulatory approvals and other required matters are completed by that time. PMC Commercial and PMC Capital are working to complete the merger during the first quarter of 2004, but in any event, no later than February 29, 2004. See Description of the Merger Agreement Closing; Completion of the Merger. The merger agreement currently obligates the parties to complete the merger on or before February 29, 2004. If necessary or desirable, PMC Commercial and PMC Capital may agree to complete the merger at a later date.

Ownership of PMC Commercial After the Merger (page 45)

Following the merger, existing PMC Capital shareholders will own approximately 40% of the outstanding common shares of PMC Commercial based on the number of PMC Commercial common shares and shares of PMC Capital common stock expected to be outstanding at completion of the merger.

Recommendations of the Special Committees and

the Boards of Trust Managers and Directors (pages 54 and 58)

Special Committee Recommendations. The board of trust managers of PMC Commercial formed a special committee of four independent PMC Commercial trust managers with no relationship to PMC Capital. The board of directors of PMC Capital also formed a special committee of four PMC Capital directors, none of whom is an employee or director of PMC Commercial or an employee of PMC Capital or its affiliates. The PMC Commercial and PMC Capital special committees were formed to protect the interests of their respective shareholders in the evaluation and negotiation of the merger agreement and the merger from potential conflicts of interest resulting from the common management of PMC Commercial and PMC Capital and the fact that certain officers and directors of PMC Capital also serve on the board of trust managers of PMC Commercial. Each special committee unanimously recommended to its respective board that the merger proposal was advisable and fair to and in the best interests of each company and its shareholders, and that the merger should be approved.

Board Recommendations. Both the board of trust managers of PMC Commercial and the board of directors of PMC Capital unanimously adopted the recommendation of their respective special committees that the merger be approved and submitted to shareholders for approval. **The PMC Commercial board of trust managers and the PMC Capital board of directors believe that the merger is advisable and in the best interests of their respective shareholders, and they unanimously recommend that their respective shareholders vote for approval of the merger proposal.**

PMC Commercial's Reasons for the Merger (page 51)

In reaching their conclusion, the PMC Commercial special committee and PMC Commercial board of trust managers approved the merger for the following reasons, among others:

Larger Market Capitalization PMC Commercial expects that the larger equity market capitalization of the combined company would help create new business flexibility and earnings stability.

Table of Contents

Stabilization of cash flow PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately increase PMC Commercial's cash available for distribution.

Support for revenue stream PMC Commercial believes that PMC Commercial's greater size resulting from the merger would help maintain PMC Commercial's revenue stream.

Internal management PMC Commercial anticipates that becoming internally managed would provide cost savings opportunities and lessen or eliminate any potential conflict of interest with PMC Capital. PMC Commercial's decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that PMC Commercial will achieve any cost savings.

Fairness opinion The PMC Commercial special committee received a written opinion from U.S. Bancorp Piper Jaffray, its financial advisor, that, as of March 27, 2003, and updated as of November 10, 2003 based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the exchange ratio of 0.37 was fair, from a financial point of view, to PMC Commercial.

PMC Capital's Reasons for the Merger (page 54)

In reaching their conclusion, the PMC Capital special committee and PMC Capital board of directors approved the merger for the following reasons, among others:

Exchange ratio PMC Capital received a written opinion from A.G. Edwards, its financial advisor, that, as of March 27, 2003 and updated as of November 10, 2003, the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital's shareholders. PMC Capital also asked A.G. Edwards to analyze the financial fairness of the merger against comparable transactions and available strategic alternatives. PMC Capital considered this information in light of the historical market prices of the PMC Capital common stock and PMC Commercial common shares.

Future environment of the small business lending industry PMC Capital expects that the merger would mitigate some of the present and possible future economic and competitive risks of the small business lending industry in which PMC Capital operates.

Need to increase capital base in a cost-effective manner PMC Capital expects that the merger would allow PMC Capital to increase its capital base at a reduced cost to achieve operating efficiencies. PMC Capital's decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that any cost savings will be achieved.

Need to diversify investment portfolio PMC Capital believes that the merger would diversify PMC Capital's investment assets to provide PMC Capital shareholders with greater earnings performance and operating and dividend stability.

Offering a stake in a larger company The combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investor interest as well as potentially increase the trading volume of the PMC Commercial common shares to be received by PMC Capital shareholders in the merger, as compared to the trading volume of PMC Capital common stock before the merger.

Reduction in complexity of corporate structure and elimination of potential conflicts of interest PMC Capital believes that the merger would simplify PMC Capital's complex business structure. It would also help to eliminate potential conflicts of interest arising out of transactions between PMC Commercial and PMC Capital and from having common members of management.

Fairness Opinions of Financial Advisors (pages 58 and 66)

PMC Commercial. The PMC Commercial special committee engaged U.S. Bancorp Piper Jaffray to act as financial advisor with respect to evaluating strategic alternatives available to PMC Commercial.

Table of Contents

On March 27, 2003, U.S. Bancorp Piper Jaffray delivered its opinion to the PMC Commercial special committee that, as of that date, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion and described under the heading "The Merger Proposal" Opinion of U.S. Bancorp Piper Jaffray, the exchange ratio in the merger pursuant to the merger agreement was fair, from a financial point of view, to PMC Commercial. U.S. Bancorp Piper Jaffray's written opinion was directed to the PMC Commercial special committee and does not constitute a recommendation to any PMC Commercial shareholder as to how such shareholder should vote with respect to the proposed merger. This opinion addressed only the fairness, from a financial point of view, of the exchange ratio in the merger to PMC Commercial. The opinion does not address PMC Commercial's underlying business decision to participate in the merger. In addition, U.S. Bancorp Piper Jaffray did not express any opinion as to the prices at which common shares of PMC Commercial or shares of common stock of PMC Capital have traded or at which shares of PMC Commercial, PMC Capital or the combined company may trade in the future. A copy of the written opinion is attached to this joint proxy statement/prospectus as Annex C. This opinion has been updated, as of November 10, 2003. **PMC Commercial shareholders should read the opinion attached as Annex C to this joint proxy statement/prospectus carefully and in its entirety in conjunction with this joint proxy statement/prospectus and should carefully consider the assumptions made, matters considered, and limits of the review undertaken, by U.S. Bancorp Piper Jaffray.**

PMC Capital. A.G. Edwards served as financial advisor to the PMC Capital special committee and the PMC Capital board of directors. A.G. Edwards rendered an opinion as to the fairness of the exchange ratio of the merger, from a financial point of view, to PMC Capital's shareholders. A.G. Edwards provided its opinion for the information and assistance of PMC Capital's special committee and PMC Capital's board of directors in connection with their consideration of the transactions contemplated by the merger agreement. The opinion provided by A.G. Edwards is not a recommendation as to how any holder of PMC Capital common stock should vote with respect to the transaction. In addition, the opinion provided by A.G. Edwards does not express any opinion as to the prices at which PMC Commercial common shares may trade following completion of the merger. The full text of this opinion is attached as Annex D to this joint proxy statement/prospectus. This opinion has been updated as of November 10, 2003. **PMC Capital encourages its shareholders to read the opinion provided by A.G. Edwards carefully and in its entirety.**

Interests of PMC Commercial and PMC Capital Management in the Merger (page 73)

The trust managers of PMC Commercial and the officers and the directors of PMC Capital have interests in the merger that are different in certain respects from and may conflict with the interests of other PMC Commercial shareholders and PMC Capital shareholders, respectively.

Currently, Lance B. Rosemore, President and Chief Executive Officer, a significant shareholder and a director of PMC Capital, Andrew S. Rosemore, Executive Vice President and Chief Operating Officer and a significant shareholder of PMC Capital, and Martha R. Greenberg, a significant shareholder and a director of PMC Capital, serve as trust managers of PMC Commercial and are all children of Fredric M. Rosemore, a significant shareholder and Chairman of the Board of PMC Capital.

Upon the completion of the merger, the PMC Commercial board of trust managers will be comprised of Nathan G. Cohen, Martha R. Greenberg, Roy H. Greenberg, Irving Munn, Andrew S. Rosemore, Lance B. Rosemore and Ira Silver, all of whom are current trust managers of PMC Commercial, and Thomas Hamill, Barry A. Imber, Fredric M. Rosemore and Theodore J. Samuel, all of whom are current directors of PMC Capital.

All executive officers of PMC Capital will become paid employees of PMC Commercial upon completion of the merger.

As of November 7, 2003, directors and officers of PMC Capital beneficially owned in the aggregate 2,503,246 shares of PMC Capital common stock, representing 21.1% of the total shares of PMC

Table of Contents

Capital. Each of these directors and officers has agreed to vote his or her PMC Capital shares in favor of the approval of the merger agreement and the merger so long as the merger agreement is in effect.

Upon completion of the merger, trust managers and officers of PMC Commercial will beneficially own in the aggregate approximately 1,523,473 PMC Commercial common shares, representing 14.1% of PMC Commercial common shares that will be outstanding after the merger is completed.

U.S. Federal Income Tax Consequences (page 243)

PMC Commercial and PMC Capital will not be obligated to complete the merger unless each has received an opinion from its counsel, based on certain assumptions and factual representations made by PMC Commercial, PMC Capital and others, to the effect that the merger will qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended and that, as a result, neither PMC Capital nor its shareholders will recognize gain or loss for U.S. Federal income tax purposes as a result of the merger. It is a condition to the merger that each of PMC Commercial and PMC Capital receive this legal opinion from its counsel. Tax matters are complicated, and the tax consequences of the merger to you will depend on the facts of your own situation. We urge you to contact your own tax advisor to understand fully how the merger will affect you, including how any state, local or foreign tax laws may apply to you.

Dividends and Distributions (page 74)

PMC Commercial. Under the merger agreement, (1) PMC Commercial is permitted, but not obligated, to pay distributions to shareholders of regular quarterly dividends up to \$0.40 per PMC Commercial common share and (2) if PMC Capital is required to make a special distribution prior to completion of the merger, PMC Commercial is permitted and intends to make a similar distribution to its shareholders, adjusted by the exchange ratio prior to completion of the merger.

In order to qualify as a REIT for U.S. Federal income tax purposes, PMC Commercial generally must distribute to its shareholders annually at least 90% of its taxable income, excluding the retained earnings of its taxable REIT subsidiaries and its net capital gains. It is anticipated that, after the completion of the merger, PMC Commercial will maintain its existing dividend policy. The payment of dividends by PMC Commercial, however, will be subject to approval and declaration by the PMC Commercial board of trust managers and will depend on a variety of factors, including business, financial and regulatory considerations.

PMC Capital. Under the merger agreement, (1) PMC Capital is permitted, but not obligated, to pay distributions to its shareholders of regular quarterly dividends up to \$0.12 per share of PMC Capital common stock and (2) PMC Capital may make distributions as required to cause PMC Capital to distribute 100% of its taxable income for the taxable year ending on the closing date of the merger.

Dissenters Rights (page 77)

PMC Commercial and PMC Capital shareholders will not be entitled to exercise dissenters rights under Texas or Florida law, respectively.

Vote Required to Approve the Merger and the Other Annual Meeting Proposals (pages 41 and 44)

Merger Proposal. The merger proposal requires the approval of the holders of two-thirds of the outstanding PMC Commercial common shares and the approval of the holders of a majority of the outstanding PMC Capital common stock. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the merger proposal. Brokers who hold shares of stock in street name cannot vote those shares unless you instruct them to vote in accordance with their procedures, which would also have the effect of a vote against the merger proposal.

Table of Contents

Other PMC Commercial Proposals.

Approval of amendments to PMC Commercial's declaration of trust. The approval of the amendments to PMC Commercial's declaration of trust requires the affirmative vote of the holders of at least two-thirds of the outstanding PMC Commercial common shares. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the amendments to PMC Commercial's declaration of trust. Brokers who hold shares of beneficial interest in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures, and this would also be counted as a vote against the amendments to PMC Commercial's declaration of trust.

Election of board of trust managers. The election of the members of the PMC Commercial board of trust managers will require the approval of the holders of two-thirds of the outstanding PMC Commercial common shares. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the election of trust managers. Brokers who hold shares of beneficial interest in street name cannot vote those shares if you have withheld authority for them to do so. These shares are referred to as broker non-votes. Broker non-votes would also have the effect of a vote against the election of trust managers.

Other proposals. The other proposals to be acted upon at the PMC Commercial annual meeting will require the approval of the holders of a majority of the PMC Commercial common shares represented and voting at the PMC Commercial annual meeting. Shares that are not voted and broker non-votes will not have any effect with respect to each of these proposals.

Other PMC Capital Proposals.

Election of board members. PMC Capital's board is composed of seven members divided into three classes, with each class serving a three-year term and one class being elected by the shareholders annually. The two nominees for election to the PMC Capital board of directors who receive the highest number of votes will be elected to a three-year term. Thus, abstentions, failures to cast a vote and broker non-votes will have no effect on the outcome of this proposal.

Other proposals. Each of the other proposals to be voted upon at the PMC Capital annual meeting will be approved if the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. Thus, abstentions, failures to vote and broker non-votes will have no effect on the outcome of these proposals.

Voting Power and Voting by Management (page 92)

On the record date, 6,449,291 PMC Commercial common shares were outstanding, of which 419,966 shares, or 6.5% of the total outstanding shares, were owned by trust managers and executive officers of PMC Commercial. On the record date, 11,853,516 shares of PMC Capital common stock were outstanding, of which 2,353,446 shares, or 19.9% of the total outstanding shares, were owned by directors and executive officers of PMC Capital and subject to the voting agreements. Each PMC Commercial common share and each share of PMC Capital common stock entitles the holder to one vote on all proposals.

So long as the merger agreement is in effect, each of the trust managers and executive officers of PMC Commercial and each of the directors and executive officers of PMC Capital has agreed to vote his or her shares in favor of the merger proposal and the merger.

Revoking Proxies (pages 42 and 45)

You can revoke a proxy previously given by you by:

sending a written notice to the secretary of PMC Commercial or PMC Capital, as appropriate, at the address shown on the proxy card;

Table of Contents

completing and signing a new proxy card;

revoting your shares over the telephone or via the Internet; or

attending the annual meeting and voting in person.

Regulatory Approvals Required to Complete the Merger (page 76)

PMC Commercial and PMC Capital must obtain certain approvals, including approval of the SBA and exemptive relief from the SEC, before they can complete the merger.

PMC Commercial and PMC Capital cannot predict whether all required regulatory approvals for the merger will be obtained, or whether any approvals will include conditions that may be detrimental to PMC Commercial or PMC Capital.

Conditions to the Merger (page 84)

The merger will be completed only if specific conditions, including, among other things, the following, are met or waived by the board of trust managers of PMC Commercial or the board of directors of PMC Capital, as applicable:

the merger agreement is approved by the required vote of PMC Commercial shareholders and PMC Capital shareholders;

no legal prohibition on completion of the merger is in effect;

PMC Commercial common shares to be issued in the merger are approved for listing on the American Stock Exchange;

the registration statement, including this joint proxy statement/ prospectus, is declared effective by the SEC;

all approvals, consents and authorizations of, filings and registrations with, and applications and notifications to all third parties and regulatory authorities required for the completion of the merger are obtained or made and are in full force and effect and all waiting periods required by applicable law have expired;

the representations and warranties made by each party continue to be accurate except for inaccuracies that would not have a material adverse effect;

covenants of the parties are performed in all material respects;

each of PMC Commercial and PMC Capital receives an opinion of its respective tax counsel to the effect that the merger will qualify as a reorganization under the Internal Revenue Code;

each of PMC Commercial and PMC Capital receives an opinion of tax counsel to the effect that PMC Capital was organized and has operated in conformity with the requirements for qualification as a regulated investment company under the Internal Revenue Code;

each of PMC Commercial and PMC Capital receives an opinion of tax counsel to the effect that PMC Commercial was organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code; and

since the date of the merger agreement, there has been no change that would have had a material adverse effect on PMC Commercial.

Table of Contents

Termination of the Merger Agreement (page 87)

Even if shareholders of PMC Commercial and PMC Capital approve the merger, PMC Commercial and PMC Capital can jointly agree to terminate the merger agreement at any time. Either PMC Commercial or PMC Capital may also terminate the merger agreement if, among other things, any of the following occurs:

the merger is not completed on or before February 29, 2004, as long as the failure to complete the merger before that date is not the result of the failure by the terminating company to fulfill any of its obligations under the merger agreement;

a court or other governmental authority prohibits the merger;

either the PMC Commercial shareholders or the PMC Capital shareholders do not approve the merger agreement;

the other company's board of directors or trust managers withdraws or changes its recommendation that the shareholders approve the merger in connection with a superior proposal as provided in the merger agreement; or

prior to the receipt of the approval of shareholders, either PMC Commercial or PMC Capital terminates the merger agreement in connection with a superior proposal as provided in the merger agreement.

PMC Commercial will pay a termination fee to PMC Capital in the amount of \$870,000 in cash to the extent set forth in the merger agreement if the merger agreement is terminated because PMC Commercial withdraws or changes its recommendation that the shareholders approve this merger or terminates the merger agreement in connection with a superior proposal.

PMC Capital will pay a termination fee to PMC Commercial in the amount of \$870,000 in cash to the extent set forth in the merger agreement if the merger agreement is terminated because PMC Capital withdraws or changes its recommendation that the shareholders approve this merger or terminates the merger agreement in connection with a superior proposal.

In the event that the merger agreement is terminated for any other reason, no termination fees will be payable, but under certain circumstances termination expenses of up to \$750,000 may be payable by either company to the other.

The Parties Cannot Solicit Other Offers (page 85)

The merger agreement contains provisions prohibiting PMC Commercial and PMC Capital from actively seeking an alternative transaction prior to the time the merger agreement is terminated or the merger is completed. The no solicitation covenant generally prohibits PMC Commercial and PMC Capital, as well as their officers, trust managers, directors, subsidiaries, employees, agents and representatives, from taking any action to solicit an acquisition proposal. The merger agreement does not, however, prohibit either PMC Commercial or PMC Capital or its respective board of trust managers or directors from considering, and potentially recommending, an unsolicited written superior proposal from a third party under certain circumstances.

Termination of Exchange Act Registration (page 79)

PMC Commercial common shares and shares of PMC Capital common stock are listed on the American Stock Exchange. Following the merger, PMC Capital common stock will be delisted and will no longer trade on the American Stock Exchange or any other exchange. PMC Capital intends to terminate the registration of its common stock under the Securities Exchange Act of 1934 promptly upon completion of the merger.

Table of Contents

Fluctuations in Market Price (pages 19 and 31)

The value of the PMC Commercial common shares that PMC Capital shareholders will receive in the merger will depend on the market value of the PMC Commercial common shares at the time the merger is completed. The market value of PMC Commercial common shares is likely to change, both before and after the PMC Capital annual shareholders meeting and the merger. No one can accurately predict what the market value will be for these shares at any particular time.

Listing of PMC Commercial Common Shares (page 74)

PMC Commercial will have the common shares to be issued in the merger listed on the American Stock Exchange and intends that its common shares will continue to be listed on the American Stock Exchange.

Risk Factors (page 19)

Shareholders voting on the merger should consider, among other things, the risks associated with ownership of PMC Commercial common shares and the other risks set forth in the section "Risk Factors" of this joint proxy statement/prospectus.

Comparison of Shareholder Rights (page 227)

The rights of PMC Capital shareholders are currently governed by Florida law, PMC Capital's articles of incorporation and PMC Capital's bylaws. When the merger is completed, shareholders of PMC Capital will become shareholders of PMC Commercial, a Texas REIT, and their rights will be governed by Texas law, PMC Commercial's declaration of trust and its bylaws. The rights of PMC Capital shareholders and the rights of PMC Commercial shareholders differ in many respects.

Furthermore, for PMC Commercial to qualify as a REIT under the Internal Revenue Code, among other things:

not more than 50% in value of its outstanding shares may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code, during the last half of a taxable year; and

the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

PMC Commercial's declaration of trust, subject to certain exceptions, provides that no holder other than any person approved by the trust managers, at their option and in their discretion, may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% of the lesser of the number or value, as determined in good faith by the trust managers, of the total outstanding shares of PMC Commercial.

Cautionary Statement Regarding Forward-Looking Statements

This document and the documents to which we refer you in this document include various forward-looking statements about PMC Commercial and PMC Capital that are subject to risks and uncertainties. Forward-looking statements include information concerning future results of operations of PMC Commercial and PMC Capital. Also, statements that use the words "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "plan," "may," "possible," "project," "should," "will" or similar expressions are forward-looking statements. Many factors, some of which are discussed elsewhere in this document and in documents to which we have referred you, could affect the future financial results of PMC Commercial and PMC Capital. These factors could cause actual results to differ materially from those expressed in the forward-looking statements contained in this document or related documents. These factors include adverse changes in economic conditions and in the markets served by PMC Commercial and PMC Capital and a

Table of Contents

significant delay in the completion of the merger, as well as the factors, risks and uncertainties discussed in Risk Factors.

Market Price and Dividend Information

The PMC Commercial common shares and the shares of PMC Capital common stock are each listed on the American Stock Exchange. The following table sets forth the periods indicated the high and low per share closing sale prices of the PMC Commercial common shares and the shares of PMC Capital common stock and the cash dividends declared per share:

	PMC Commercial			PMC Capital		
	High	Low	Dividend	High	Low	Dividend
2000 (Calendar Year)	\$ 12.63	\$ 8.69	\$ 1.745	\$ 10.38	\$ 7.75	\$ 1.000
2001 (Calendar Year)	\$ 15.24	\$ 9.00	\$ 1.520	\$ 9.50	\$ 6.75	\$ 0.850
2002 (Calendar Year)	\$ 15.50	\$ 11.25	\$ 1.620	\$ 8.00	\$ 3.20	\$ 0.560
2003:						
First Quarter	\$ 13.57	\$ 12.49	\$ 0.400	\$ 5.30	\$ 3.90	\$ 0.120
Second Quarter	\$ 14.20	\$ 11.67	\$ 0.380	\$ 5.22	\$ 4.08	\$ 0.120
Third Quarter	\$ 14.00	\$ 13.06	\$ 0.380	\$ 5.05	\$ 4.67	\$ 0.120
Fourth Quarter through November 7, 2003	\$ 14.16	\$ 13.58	*	\$ 5.05	\$ 4.77	*

* No dividend has been declared as of November 7, 2003.

Listing on the American Stock Exchange of the PMC Commercial common shares issuable in connection with the merger is a condition to the completion of the merger.

Table of Contents

RISK FACTORS

In considering whether to vote in favor of the merger, you should consider all of the information included in this joint proxy statement/prospectus, including the matters addressed in Cautionary Statement Regarding Forward-Looking Statements. In addition, you should carefully consider the following risk factors considered by PMC Commercial and PMC Capital, based on the information available to them, to be material to the approval of the merger agreement and the merger and/or inherent in the business of the combined company and in the ownership of the combined company's shares. These factors are important, and PMC Commercial and PMC Capital have not attempted to quantify their potential effects on the combined company that will result from the merger.

Risks Related to the Merger and the Combined Company

PMC Capital and PMC Commercial have agreed to a fixed exchange ratio, and, as a result, the PMC Commercial common shares to be issued in the merger may have a market value that is lower than expected.

The exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fixed on March 27, 2003, the time of the signing of the merger agreement, and is not subject to adjustment based on changes in the trading price of the PMC Commercial or the PMC Capital common shares before the closing of the merger. It is the parties' intention, subject to shareholder approval, to complete the merger during the first quarter of 2004, and not later than February 29, 2004; however, if other conditions to close the merger are not satisfied or duly waived at that time, there may be a significant amount of time between the date of the two annual meetings and the date when the merger is completed. As a result, the market price of the PMC Commercial common shares at the time of the merger may vary significantly from the price on the date the merger agreement was signed or from the price on either the date of this joint proxy statement/prospectus or the date of the annual meetings. These variances may arise due to, among other things:

changes in the business, operations and prospects of PMC Commercial or PMC Capital;

the financial condition of current or prospective borrowers of PMC Commercial or PMC Capital or tenants of PMC Commercial;

interest rates, general market and economic conditions and other factors;

market assessments of the likelihood that the merger will be completed and the timing of the merger; and

market perception of the future profitability of the combined company.

Substantially all of these factors are beyond the control of PMC Commercial and PMC Capital. It should be noted that during the 12-month period ending November 7, 2003, the closing per common share price of PMC Commercial varied from a low of \$11.25 to a high of \$14.20. Historical trading prices are not necessarily indicative of future performance.

In addition, although both the PMC Capital special committee and the PMC Commercial special committee obtained updated opinions from their respective financial advisors as to the fairness, from a financial point of view, of the exchange ratio in the merger immediately prior to the mailing of the joint proxy statement/prospectus, such opinions necessarily will be based upon the information available to the financial advisors, the facts and circumstances known by them and the economic, market or other conditions as they exist on the dates of their respective updated opinions and as such no assurance can be given that subsequent developments prior to the completion of the merger would not affect their opinions.

Table of Contents

The merger is subject to the receipt of consents and approvals from government entities and third party lenders that could delay completion of the merger or impose conditions that could have a material adverse effect on PMC Capital or PMC Commercial or cause abandonment of the merger, which may adversely affect the value of the common shares of PMC Capital or PMC Commercial.

Completion of the merger is conditioned upon the issuance by the SEC of an order exempting the merger from the provisions of Section 57(a) of the 1940 Act. In addition, the SBA must consent to the merger prior to its consummation. A substantial delay in obtaining exemptive relief from the SEC or consent from the SBA or the imposition of unfavorable terms or conditions by the SEC or SBA could have an adverse effect on the business, financial condition or results of operations of PMC Capital or PMC Commercial, or may cause the abandonment of the merger.

Completion of the merger is also subject to approval by certain third party lenders to PMC Capital and PMC Commercial. A substantial delay in obtaining such approvals, the failure to obtain such approvals or the imposition of unfavorable terms or conditions could have an adverse effect on the business, financial condition or results of operations of PMC Capital or PMC Commercial, or may cause the abandonment of the merger.

The intended benefits of the merger may not be realized, which could have a negative impact on the market price of PMC Commercial's common shares after completion of the merger.

No assurance can be given that the anticipated expense reductions or other operating synergies will be realized by PMC Commercial following the merger or that unanticipated costs will not arise as a result of the merger. For example, transaction costs, such as increased transfer taxes, consent fees or professional expenses, could exceed PMC Commercial's original estimates or future operating expenses, such as increased personnel costs, could be higher than anticipated, all of which could have a material adverse effect on the results of operations and financial condition of the combined company after the merger. In addition, U.S. Federal income taxes incurred by PMC Commercial following the merger could be higher than anticipated. If the expected savings are not realized or unexpected costs are incurred, the merger could have a significant dilutive effect on PMC Commercial's per share operating results.

In addition, the completion of the merger poses risks for the ongoing operations of the combined company, including the fact that PMC Commercial's portfolio may not perform as well as anticipated due to various factors, including the financial condition of significant borrowers or tenants and changes in macro-economic conditions.

You will experience a reduction in percentage ownership and voting power with respect to your shares as a result of the merger.

PMC Commercial shareholders and PMC Capital shareholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in PMC Commercial and PMC Capital prior to the merger. If the merger is consummated, PMC Capital shareholders will own approximately 40% of PMC Commercial's outstanding common stock and current shareholders of PMC Commercial will own approximately 60% of the combined entity. In the future, PMC Commercial may issue additional common shares in public offerings, mergers and acquisitions or otherwise, all of which would further reduce your percentage ownership of PMC Commercial.

PMC Commercial may acquire the net assets of PMC Capital for less than the estimated fair value of PMC Capital's net assets as determined in accordance with GAAP.

At the time of completion of the merger, if the estimated fair value of the net assets of PMC Capital exceeds the purchase price paid by PMC Commercial, then an extraordinary gain will be recorded. Based on PMC Commercial's pro forma purchase price allocation as of June 30, 2003 (which was based on a \$13.10 share price for PMC Commercial), PMC Commercial would be acquiring the net assets of PMC Capital for \$14 million less than the estimated fair value of PMC Capital's net assets as determined in accordance with GAAP. The estimated fair value of PMC Capital's net assets and the market price of PMC Commercial's stock price will continue to fluctuate until the consummation of the merger. As a result, the

Table of Contents

amount of extraordinary gain, if any, will be higher or lower than the pro forma extraordinary gain determined as of June 30, 2003. See The Merger Proposal Accounting Treatment and Unaudited Pro Forma Consolidated Financial Information.

Under certain circumstances, PMC Capital is obligated to pay PMC Commercial a termination fee upon termination of the merger agreement, and vice versa.

No assurance can be given that the merger will be completed. The merger agreement provides for the payment by PMC Capital of a break-up fee of \$870,000 or break-up expenses of \$750,000 if the merger is terminated by PMC Capital under certain circumstances; the merger agreement likewise provides that PMC Commercial will pay the same break-up fees or expenses under certain circumstances. The obligation to make that payment may adversely affect the ability of the terminating company to engage in another transaction in the event the merger is not completed and may have an adverse impact on the financial condition of that company. See Description of the Merger Agreement Termination of the Merger Agreement and Expenses; Termination Fees and The Merger Proposal PMC Commercial Reasons for the Merger and PMC Capital Reasons for the Merger. If the merger is not consummated, both companies will nonetheless be responsible for non-refundable payments to financial advisors and other payments, including but not limited to legal fees and accounting fees.

Failure of PMC Commercial to qualify as a REIT could result in a significant tax liability for the combined company, which would adversely affect its results of operations.

PMC Commercial believes that it has operated in a manner that allows it to qualify as a REIT under the Internal Revenue Code, and it intends to continue to so operate through and including the effective time of the merger. If the merger is consummated, PMC Commercial intends to operate the combined business in a manner so that it will continue to qualify as a REIT. Although PMC Commercial believes that it is organized and operates as a REIT, no assurance can be given that PMC Commercial will remain qualified as a REIT following the merger. Qualification as a REIT involves the application of technical and complex provisions of the Internal Revenue Code for which there are limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within PMC Commercial's control. In addition, no assurance can be given that new legislation, regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If the combined company fails to qualify as a REIT, it may, among other things:

not be allowed a deduction for distributions to shareholders in computing its taxable income;

be subject to U.S. Federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates;

be subject to increased state and local taxes; and

unless entitled to relief under certain statutory provisions, be disqualified from treatment as a REIT for the taxable year in which it lost its qualification and the four taxable years following the year during which it lost its qualification.

As a result of these factors, the failure of PMC Commercial to qualify as a REIT following the merger also could impair its ability to expand its business and raise capital, substantially reduce the funds available for distribution to its shareholders and reduce the trading price of its common shares following the merger.

The trust managers and executive officers of PMC Commercial and the directors and executive officers PMC Capital have interests in the completion of the merger that may differ from or conflict with the interests of the shareholders of their respective companies.

PMC Commercial shareholders and PMC Capital shareholders should note that the trust managers and officers of PMC Commercial and the directors and officers of PMC Capital have interests in the merger that

Table of Contents

are different in certain respects from and may conflict with the interests of other PMC Commercial shareholders and PMC Capital shareholders. If re-elected, all current trust managers of PMC Commercial will remain as trust managers of the merged company. In addition, certain directors of PMC Capital will become trust managers, and all existing officers of PMC Capital will become paid employees, of the merged company. PMC Commercial is currently managed by two wholly-owned subsidiaries of PMC Capital. The executive officers of PMC Commercial are the same as the executive officers of PMC Capital. Two trust managers of PMC Commercial, Lance B. Rosemore and Andrew S. Rosemore, also serve as executive officers of PMC Capital, and two trust managers of PMC Commercial, Lance B. Rosemore and Martha R. Greenberg, also serve as directors of PMC Capital. See The Merger Proposal Interests of Certain Persons in the Merger.

The directors and executive officers of PMC Capital, who hold approximately 21.1% of the beneficial and record ownership of PMC Capital as of November 7, 2003, have agreed to vote their shares in favor of the merger agreement and the transactions contemplated by the merger. The trust managers (of which Lance B. Rosemore and Martha R. Greenberg are directors of PMC Capital) and executive officers of PMC Commercial (all of whom are executive officers of PMC Capital), who hold approximately 9.0% of the beneficial and record ownership of PMC Commercial as of November 7, 2003, have agreed to vote their shares in favor of the merger agreement and the transactions contemplated by the merger.

As of November 7, 2003, assuming the merger is completed, the directors and officers of PMC Capital and trust managers and officers of PMC Commercial will beneficially own in the aggregate approximately 1,523,473 shares of PMC Commercial, representing 14.1% of the outstanding common shares of PMC Commercial.

The ownership limitation applicable to PMC Commercial's common shares as a result of its REIT status may discourage third parties from attempting to acquire PMC Commercial and prevent shareholders of PMC Commercial from receiving any premium above market price for their shares.

PMC Capital and PMC Commercial anticipate that PMC Commercial will continue to qualify as a REIT if the merger is consummated. PMC Commercial's declaration of trust includes a provision preventing any shareholder from owning more than 9.8% of PMC Commercial's outstanding common shares without approval by PMC Commercial's board of trust managers. This ownership limitation provision in PMC Commercial's declaration of trust may have the effect of discouraging offers to acquire control of PMC Commercial and may preclude holders of PMC Commercial common shares from receiving any premium above market price for their shares that might otherwise be offered in connection with any attempt to acquire control of PMC Commercial.

Financial forecasts and projections considered by the parties may not be realized, which may adversely affect the market price of PMC Capital or PMC Commercial common shares.

Neither PMC Capital nor PMC Commercial generally makes, as a matter of course, public forecasts or projections as to future revenues, earnings or other financial statement data, and none of the projections relating to future financial results of PMC Capital or PMC Commercial prepared by management and considered by the parties to the transaction were prepared with a view to public disclosure or compliance with the published guidelines of the SEC or the American Institute of Certified Public Accountants regarding projections and forecasts. These projections are inherently based on various estimates and assumptions that are subject to the judgment of those preparing them. These projections are also subject to significant economic, competitive, industry and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of PMC Capital or PMC Commercial. Accordingly, there can be no assurance that PMC Capital's or PMC Commercial's financial results will not be significantly higher or lower than those set forth in such projections. Significantly lower financial results could have a material adverse effect on the market price of PMC Capital and PMC Commercial common shares.

Table of Contents

The respective financial advisers to the PMC Capital special committee and the PMC Commercial special committee reviewed and relied on, among other things, certain projected financial forecasts and costs savings and operational synergies, the date of their respective opinions, and a failure of PMC Commercial to achieve these results could have a material adverse effect on the market price of PMC Commercial's common shares.

In performing their financial analyses and rendering their opinions regarding the fairness from a financial point of view of the exchange ratio in the merger, the respective financial advisers to the PMC Capital special committee and the PMC Commercial special committee reviewed and relied on, among other things, internal financial analyses and forecasts for PMC Capital and PMC Commercial available, the date of their respective opinions, including certain pro forma financial analyses and forecasts for PMC Commercial after the merger and cost savings and operating synergies projected to result from the merger. The respective financial advisers to the PMC Capital special committee and the PMC Commercial special committee also assumed that the pro forma financial analyses and forecasts for PMC Commercial and projected cost savings and operational synergies as a result of the merger will be achieved within certain time frames. These pro forma financial analyses and forecasts and projected cost savings and operational synergies may not be achieved in full, at all, or within the projected time frames, and a failure of PMC Commercial to realize these pro forma financial analyses and forecasts and projected cost savings and operational synergies could have a material adverse effect on the earnings per share of the combined company, which could in turn have an adverse effect on the market price of PMC Commercial's common shares.

A sale of assets acquired from PMC Capital within ten years after the merger would result in federal corporate income tax, which would reduce the cash available for distribution to its shareholders.

As a result of the merger, certain subsidiaries of PMC Capital that are currently taxed as C corporations will become qualified REIT subsidiaries of PMC Commercial. As a result, these subsidiaries will be deemed liquidated into PMC Commercial for U.S. Federal income tax purposes. If PMC Commercial sells any assets of these subsidiaries within ten years after the merger and recognizes a taxable gain on the sale, PMC Commercial will be taxed at the highest corporate rate on an amount equal to the lesser of:

the amount of gain that PMC Commercial recognizes at the time of the sale; or

the amount of gain that PMC Commercial would have recognized if it had sold the asset at the time of the merger for its then fair market value.

This rule potentially could inhibit PMC Commercial from selling such other assets within ten years after the merger. PMC Commercial does not expect this rule to have a material effect on its operations. See U.S. Federal Income Tax Consequences Taxation as a REIT.

PMC Commercial's ownership of and relationship with its taxable REIT subsidiaries will be limited, and a failure to comply with the limits would jeopardize PMC Commercial's REIT status and may result in the application of a 100% excise tax.

Subject to certain restrictions, a REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a taxable REIT subsidiary. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary generally will pay income tax at regular corporate rates on any taxable income that it earns. In addition, the taxable REIT subsidiary rules limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm's-length basis. See U.S. Federal Income Tax Consequences.

Table of Contents

PMC Capital and PMC Commercial believe that, as of the closing date of the merger, the aggregate value of the taxable REIT subsidiary stock and securities owned by PMC Commercial will be less than 20% of the value of PMC Commercial's total assets (including the taxable REIT subsidiary stock and securities). Furthermore, PMC Commercial will monitor at all times the value of its investments in its taxable REIT subsidiaries for the purpose of ensuring compliance with the rule that no more than 20% of the value of its assets may consist of taxable REIT subsidiary stock and securities (which is applied at the end of each calendar quarter). In addition, PMC Commercial will scrutinize all of its transactions with its taxable REIT subsidiaries for the purpose of ensuring that they are entered into on arm's-length terms in order to avoid incurring the 100% excise tax described above. There can be no assurance, however, that PMC Commercial will be able to comply with the 20% limitation on ownership of taxable REIT subsidiary stock and securities on an ongoing basis so as to maintain REIT status or to avoid application of the 100% excise tax imposed on certain non-arm's-length transactions.

PMC Commercial operates in a highly regulated environment which could adversely affect its results, which may, in turn, affect the market price of its shares and its ability to distribute dividends.

Changes in the laws or regulations governing REITs may significantly affect PMC Commercial's business. As a company whose common shares are publicly traded, PMC Commercial is subject to the rules and regulations of the SEC. In addition, the lending operations of certain of PMC Capital's subsidiaries are regulated by the SBA. If the merger is consummated, such subsidiaries will continue to be regulated by the SBA, and changes in laws that govern these entities may significantly affect PMC Commercial's business. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations are also subject to change. Any change in the laws or regulations governing PMC Commercial's business could have a material impact on its financial condition or its results of operations.

Shareholders of PMC Capital will no longer enjoy certain protections afforded by the 1940 Act.

The 1940 Act provides certain protections to the shareholders of PMC Capital such as limitations on leverage, restrictions on transactions with affiliates and the requirement that a majority of the board of directors be persons who are not interested persons as defined in the 1940 Act. See PMC Capital Business Regulatory Overview. As a result of the merger, PMC Capital shareholders will become shareholders of PMC Commercial, a REIT that is not subject to the requirements of the 1940 Act.

Risks Related to the Business of Both PMC Commercial and PMC Capital

Set forth below are risks applicable to both PMC Commercial and PMC Capital which will continue to be applicable to the combined company if the merger is completed and may be exacerbated by virtue of the operations of PMC Commercial and PMC Capital being combined.

PMC Commercial and PMC Capital have a concentration of investments in the hospitality industry and in Texas, which may negatively impact the market price of their respective shares and their ability to make distributions.

Substantially all of PMC Commercial's revenue is generated from lending to, and leasing of, limited service hospitality properties. Its loans receivable were 100% concentrated in the hospitality industry at December 31, 2002. PMC Capital has a fundamental policy regarding investment in the hospitality industry. At December 31, 2002, PMC Capital's investment in loans to businesses in the hospitality industry comprised approximately 81% and 85% of its total assets and loans receivable, respectively. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on its financial condition and results of operations. For example, the events of September 11th caused significant strain on travel related businesses in the United States. Military actions against terrorists, new terrorist attacks or other political events, including the impact of war, could cause additional strain on the hospitality industry and negatively impact PMC Commercial's or PMC Capital's financial condition and results of operations. See PMC Commercial Management's Discussion and Analysis of Financial Condition and Results of Operations Business Hospitality Industry Factors.

Table of Contents

At December 31, 2002, approximately 27% of PMC Commercial's loans receivable were collateralized by properties in Texas and approximately 29% of PMC Capital's loans receivable were from businesses in Texas. No other state had a concentration of 10% or greater of PMC Commercial's or PMC Capital's loans receivable at December 31, 2002. Approximately 21% and 27% of the loans receivable underlying PMC Commercial's and PMC Capital's retained interests, respectively, are concentrated in Texas. A decline in economic conditions in Texas could have a material adverse effect on PMC Commercial's or PMC Capital's financial condition and results of operations.

The market for structured loan transactions may decline, which would decrease the availability of and increase the cost of working capital and negatively affect the potential for growth and cash available for distribution to shareholders.

PMC Commercial and PMC Capital will continue to need capital to fund loans. PMC Commercial's and PMC Capital's ability to continue to grow depends, to a large extent, on its ability to complete structured loan sale transactions. In certain economic markets the availability of funds may be diminished or the spread charged for funds may increase causing PMC Commercial or PMC Capital to delay a structured loan sales transaction. Terrorist attacks or political events, including the impact of war, could impact the availability and cost of PMC Commercial's or PMC Capital's capital. See PMC Commercial Management's Discussion and Analysis of Financial Condition and Results of Operations Business Asset-Backed Structured Loan Sale Transaction Market and PMC Capital Management's Discussion and Analysis of Financial Condition and Results of Operations Business Asset-Backed Structured Loan Sale Transaction Market.

Due to the economic and interest rate environments, the companies may experience difficulties in selling its variable-rate loans receivable at an acceptable spread. Certain economic conditions may cause investors in the type of asset-backed securities that PMC Commercial and PMC Capital place to widen the spreads they require in order to purchase asset-backed securities.

A reduction in the availability or an increased cost of this source of funds could have a material adverse effect on PMC Commercial's or PMC Capital's financial condition and results of operations because working capital may not be available or available at acceptable spreads to fund the companies' respective current commitments, future loan originations or to acquire real estate.

Prepayment rates could negatively affect the value of loans receivable, which could result in losses or reduced earnings and negatively affect the cash available for distribution to its shareholders.

Prepayments of fixed-rate loans generally increase during times of declining interest rates. The proceeds from the prepayments PMC Commercial and PMC Capital receive are invested initially in temporary investments and have generally been re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. The lower interest rates the companies receive on these new loans receivable have had an adverse effect on each of the company's results of operations and depending upon the rate of future prepayments may further affect their results of operations. The impact of the lower lending rates on PMC Commercial's and PMC Capital's net income may be partially offset by the reduced cost of its variable-rate borrowings in a lower interest rate environment. In addition, when loans receivable are repaid prior to their maturity, PMC Commercial and PMC Capital often receive prepayment fees.

Prepayments of loans receivable may affect the companies' spread on the pool of loans receivable sold in its structured loan sale transactions. Prepayments of loans receivable which have higher interest rates negatively impact the value of PMC Commercial's and PMC Capital's retained interests to a greater extent than prepayments of loans receivable which have lower interest rates. Prepayments in excess of assumptions will cause a decline in the value of the companies' retained interests primarily relating to the excess funds (the interest-only strip receivable) expected from PMC Commercial's and PMC Capital's structured loan sale transactions. For example, if a \$1.0 million loan with an interest rate of 10% prepays and the all-in cost of the structured notes that such loan was securing was 7%, PMC Commercial or PMC Capital would lose the 3% spread expected on that loan in future periods. The companies' all-in costs include interest, servicing,

Table of Contents

trustee and other ongoing costs. The spread that is lost may be offset in part or in whole by the prepayment fee that PMC Commercial or PMC Capital collects.

One of PMC Capital's subsidiaries, First Western SBLC, Inc. (First Western), sells the guaranteed portion of most of its originated loans through private placements. These sales are included in PMC Capital's retained interests and are especially sensitive to prepayments. PMC Capital's retained interest in these loan sales consists only of the spread between the interest it collects from the borrower and the interest it pays the purchaser of the guaranteed portion of the loan. Therefore, to the extent the prepayments of these loans exceed estimates, there is a significant impact on the value of the associated retained interests.

Changes in interest rates could negatively affect lending operations, which could result in reduced earnings and negatively affect the cash available for distribution to shareholders.

The net income of PMC Commercial's lending operations is materially dependent upon the spread between the rate at which PMC Commercial borrows funds (historically either short-term at variable rates or long-term at fixed rates) and the rate at which PMC Commercial loans these funds. During periods of changing interest rates, interest rate mismatches could negatively impact PMC Commercial's net income, dividend yield, and the market price of its common shares.

As a result of PMC Commercial's and PMC Capital's dependence on variable-rate loans, PMC Commercial's and PMC Capital's interest income has been, and will continue to be, reduced by the low interest rate environment. In addition, to the extent that rates remain at these historically low levels, or LIBOR decreases from current levels, interest income on PMC Commercial's and PMC Capital's currently outstanding loans receivable will decline.

PMC Capital's net interest margin is affected by changes in the spread between the rate at which it borrows funds and the rate at which it loans these funds. PMC Capital and two of its subsidiaries, Western Financial Capital Corporation (Western Financial) and PMC Investment Corporation (PMCIC), currently originate primarily variable interest rate loans and the borrowed funds of these companies are typically long-term and at fixed interest rates. First Western originates variable interest rate loans and has utilized both advances from PMC Capital and the sale of its loans receivable to obtain funds necessary to originate loans. If the yield on loans originated by PMC Capital with funds obtained from borrowings or preferred stock fails to cover the cost of such funds, its cash flow will be reduced. During periods of changing interest rates, interest rate mismatches on its loans receivable could negatively impact its net investment income, dividend yield and the market price of its common stock.

Changes in interest rates do not have an immediate impact on interest income with regard to fixed-rate loans receivable. PMC Commercial's and PMC Capital's interest rate risk on fixed-rate loans receivable is primarily due to loan prepayments and maturities. The average maturity of its loans receivable is less than their average contractual terms because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when the current mortgage loan rates are substantially lower than rates on existing mortgage loans (due to refinancings of fixed-rate loans).

Economic slowdowns, other negative political events and changes in the competitive environment could adversely affect operating results and the ability to distribute dividends.

Several factors may impact the ability of PMC Commercial's and PMC Capital's borrowers to meet their contractual payment obligations or its hotel properties to generate sufficient cash flow to support their monthly lease payments. During economic downturns, there may be reductions in business travel and consumers generally take fewer vacations. Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing PMC Commercial's and PMC Capital's loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease. These factors may cause a reduction in revenue per available room (RevPar). If RevPar for the limited service sector of the hospitality industry were to experience significant

Table of Contents

sustained reductions, the ability of PMC Commercial s or PMC Capital s borrowers to meet their obligations could be impaired, and loan losses could increase. In addition, the ability of the operator of PMC Commercial s properties, Arlington, to meet its obligations could be impaired.

Economic recessions or downturns could impair PMC Commercial s or PMC Capital s borrowers and harm the companies' operating results. Many of the companies in which PMC Commercial and PMC Capital have made or will make loans may be susceptible to economic slowdowns or recessions. Terrorism, bankruptcies or other political events, including the impact of war, could affect PMC Commercial s or PMC Capital s borrowers. PMC Commercial s and PMC Capital s non-performing assets are likely to increase during these periods. These conditions could lead to losses in PMC Commercial s or PMC Capital s portfolio and a decrease in the companies' respective interest income, net income and assets.

PMC Commercial s and PMC Capital s primary competition for lending opportunities has come from banks, financial institutions and other lending companies. Many of these competitors have greater financial and managerial resources than PMC Commercial or PMC Capital and are able to provide services PMC Commercial and PMC Capital are not able to provide (i.e., depository services). As a result of these competitors' greater financial resources, they may be better able to withstand the impact of economic downturns than PMC Commercial or PMC Capital.

There is volatility in the value of the retained interests, which may adversely affect cash available for distribution to shareholders.

Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of PMC Commercial s and PMC Capital s retained interests in transferred assets and the limited number of buyers for such assets, no readily ascertainable market exists for PMC Commercial s or PMC Capital s retained interests. Therefore, PMC Commercial s and PMC Capital s determination of the fair value may vary significantly from what a willing buyer would pay for these assets. If PMC Commercial or PMC Capital were forced to immediately liquidate some or all of its retained interests, the proceeds of such liquidation may be significantly less than the current value of such retained interests.

The value of PMC Commercial s and PMC Capital s retained interests is determined based on certain assumptions including, but not limited to, anticipated defaults, prepayment speeds and discount rates. PMC Commercial and PMC Capital each retain a portion of the default and prepayment risk associated with the underlying transferred loans receivable of their retained interests. As more fully described below, actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing the retained interests may vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of its retained interests and the related estimated cash flows. The discount rates utilized are determined for each of the assets comprising the retained interests based upon an estimate of the inherent risks associated with each asset.

Table of Contents

The following is a sensitivity analysis of PMC Commercial's retained interests as of June 30, 2003 to highlight the volatility that results when prepayments, loan losses and discount rates are different than PMC Commercial's assumptions:

Changed Assumption	Pro Forma Value	Asset Change
	<i>(In thousands)</i>	
Losses increase by 50 basis points per annum(1)	\$21,004	\$(1,682)
Losses increase by 100 basis points per annum(1)	\$19,386	\$(3,300)
Rate of prepayment increases by 5% per annum(2)	\$21,960	\$ (726)
Rate of prepayment increases by 10% per annum(2)	\$21,455	\$(1,231)
Discount rates increase by 100 basis points	\$21,685	\$(1,001)
Discount rates increase by 200 basis points	\$20,747	\$(1,939)

- (1) *If PMC Commercial experiences significant losses (i.e., in excess of anticipated losses), the effect on its retained interests would first reduce the value of the PMC Commercial interest-only strip receivables. To the extent the PMC Commercial interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of the reserve (the PMC Commercial reserve funds) funds and then the value of its required overcollateralization (the PMC Commercial required overcollateralization).*
- (2) *For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.*

The following is a sensitivity analysis of PMC Capital's retained interests as of June 30, 2003 to highlight the volatility that results when prepayments, loan losses and discount rates are different than its assumptions:

Changed Assumption	Pro Forma Value	Asset and Net Income Change
	<i>(In thousands)</i>	
Losses increase by 50 basis points per annum(1)	\$35,140	\$(2,504)
Losses increase by 100 basis points per annum(1)	\$32,717	\$(4,927)
Rate of prepayments increases by 5% per annum(2)	\$36,352	\$(1,292)
Rate of prepayments increases by 10% per annum(2)	\$35,411	\$(2,233)
Discount rates increase by 100 basis points	\$36,133	\$(1,511)
Discount rates increase by 200 basis points	\$34,712	\$(2,932)

- (1) *If PMC Capital experiences significant losses (i.e., in excess of anticipated losses), the effect on its retained interests would first reduce the value of the interest-only strip receivables (the PMC Capital interest-only strip receivables). To the extent the PMC Capital interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of its reserve funds (the PMC Capital reserve funds) and then the value of its required overcollateralization (the PMC Capital required overcollateralization).*
- (2) *For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.*

These sensitivities are hypothetical and should be used with caution. Pro forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value is not linear. The effect of a variation in a particular assumption on the fair value of PMC Commercial's or PMC Capital's retained interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another, which might magnify or counteract the sensitivities.

Changes in any of these assumptions or actual results which deviate from assumptions affect the value of PMC Commercial's or PMC Capital's retained interests, possibly to a material degree. There can be no assurance as to the accuracy of these estimates.

Table of Contents

PMC Commercial and PMC Capital are leveraged, which could adversely affect their operations and negatively affect cash available for distribution to their shareholders.

PMC Commercial and PMC Capital have borrowed funds. PMC Commercial intends to obtain additional funds through advances under its revolving credit facility and through the issuance of mortgage notes payable, and PMC Capital intends to obtain additional funds through advances on its revolving credit facility and discretionary guidance line and through the issuance of notes payable or SBA debentures, if available. As a result, both companies use leverage to fund their capital needs. Private lenders, and in the case of PMC Capital, the SBA, have fixed dollar claims on PMC Commercial's and PMC Capital's assets superior to the claims of the holders of its common shares. Leverage magnifies the effect that rising or falling interest rates have on PMC Commercial's and PMC Capital's earnings. Any increase in the interest rate earned by PMC Commercial or PMC Capital on investments in excess of the interest rate on the funds obtained from borrowings would cause its net income and earnings per share to increase more than they would without leverage, while any decrease in the interest rate earned by PMC Commercial or PMC Capital on investments would cause net income and earnings per share to decline by a greater amount than they would without leverage. Leverage is thus generally considered a speculative investment technique. In order for PMC Commercial or PMC Capital to repay indebtedness on a timely basis, PMC Commercial or PMC Capital may be required to dispose of assets when it would not otherwise do so and at prices which may be below the net book value of such assets. Dispositions of assets could have a material adverse effect on PMC Commercial's or PMC Capital's financial condition and results of operations.

There are significant risks in lending to small businesses, which could adversely affect operations and negatively affect cash available for distribution to PMC Commercial and PMC Capital shareholders.

PMC Commercial's and PMC Capital's loans receivable consist primarily of loans to small, privately-owned companies. There is no publicly available information about these companies; therefore, PMC Commercial and PMC Capital must rely on the due diligence of the Investment Manager or employees to obtain information regarding investment decisions. PMC Commercial's and PMC Capital's borrowers may not meet net income, cash flow and other coverage tests typically imposed by bank lenders. A borrower's ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative economic conditions. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in the collateral for the loan. In addition, small businesses depend on the management talents and efforts of one person or a small group of people for their success. The loss of services of one or more of these persons could have an adverse impact on the operations of the small business. Small companies are typically more vulnerable to customer preferences, market conditions and economic downturns and often need additional capital to expand or compete. These factors may have an impact on the ultimate recovery of PMC Commercial's or PMC Capital's loans receivable to such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative.

There is volatility in PMC Commercial's and PMC Capital's loans receivable, which may adversely affect their operations and negatively affect cash available for distribution to shareholders.

There is typically no public market or established trading market for the loans PMC Commercial originates. The illiquid nature of PMC Commercial's loans receivable may adversely affect its ability to dispose of such loans receivable at times when it may be advantageous for PMC Commercial to liquidate such investments. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of additional loan loss reserves.

PMC Commercial's provision for loan losses was 0.09% (nine basis points) of its weighted average outstanding loans receivable during 2002. It may be difficult to maintain such a low loss rate on PMC Commercial's loans receivable. To the extent one or several of PMC Commercial's loans experience significant operating difficulties and PMC Commercial is forced to liquidate the loan, future losses may be substantial. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan requires judgment and consideration of the facts and circumstances existing at the evaluation

Table of Contents

date. Changes to the facts and circumstances of its borrower, the hospitality industry and the economy may require the establishment of significant additional loan loss reserves.

The valuation of PMC Capital's loans receivable and assets acquired in liquidation are determined in good faith by its board of directors. There is typically no public market or established trading market for the loans PMC Capital originates. The illiquid nature of PMC Capital's loans receivable and assets acquired in liquidation may adversely affect its ability to dispose of these investments at times when it may be advantageous for it to liquidate them. The valuation of PMC Capital's loans receivable and assets acquired in liquidation is adjusted on a quarterly basis to reflect the good faith determination of its board of directors as to its current fair value. The determination of fair value requires judgment and consideration of the facts and circumstances existing at the evaluation date. Adverse changes to the facts and circumstances of the collateral, borrower, industry and/or the economy will impact the board of director's determination of value and may require valuation losses which may be material to PMC Capital's results of operations. In the absence of a readily ascertainable market, the value of the loans receivable may differ from the values that would be placed if a ready market existed. If PMC Capital was forced to immediately liquidate some or all of its loans receivable, the proceeds of such liquidation may be significantly less than the current value of such loans receivable.

Losses on PMC Capital's loans (realized and unrealized) were 0.56% (56 basis points) of its weighted average outstanding loans receivable during the year ended December 31, 2002. To the extent PMC Capital is forced to liquidate one or several of its loans, future losses may be substantial. The change in assets and net income if the valuation of its loan portfolio were to decline is as follows:

	Change in Assets and Net Income
	<i>(In thousands)</i>
Loan portfolio valuation declines by 1%	\$ (885)
Loan portfolio valuation declines by 2%	\$ (1,770)

PMC Commercial and PMC Capital have an ongoing need for additional capital and the failure to procure adequate capital would adversely affect PMC Commercial's and PMC Capital's results and may, in turn, negatively affect the market price of its shares and its ability to distribute dividends.

PMC Commercial and PMC Capital will continue to need working capital to fund loans. Historically, the companies have sold loans receivable, borrowed from financial institutions and issued equity securities to raise working capital. A reduction in the availability of funds from financial institutions or the asset-backed securities market could have a material adverse effect on the companies' financial condition and results of operations. PMC Commercial must distribute at least 90% of its REIT taxable income to its shareholders to maintain its REIT status under the Internal Revenue Code. As a result, that income will not be available to fund loan originations or acquire real estate. PMC Commercial expects to be able to borrow from financial institutions and sell loans receivable in the asset-backed securities market.

PMC Capital must distribute at least 90% of its investment company taxable income to its shareholders to maintain its regulated investment company (RIC) status under the Internal Revenue Code. As a result, such earnings are not available to fund loan originations. PMC Capital expects to be able to borrow from financial institutions and sell loans receivable in the asset-backed securities market. It does not anticipate selling additional equity securities at its current market price. If PMC Capital fails to obtain funds from such sources or from other sources to fund its loans and pay dividends, it could have a material adverse effect on PMC Capital's financial condition and results of operations. In addition, as a BDC, PMC Capital is generally required to maintain a ratio of at least 200% of total assets to total borrowings, which restricts its ability to borrow in certain circumstances.

Table of Contents

PMC Commercial and PMC Capital may experience significant fluctuations in their quarterly results due to factors beyond their control, such as fluctuations in interest rates, and they may therefore fail to meet profitability and/or dividend expectations, which may, in turn, affect the market price of their common shares.

PMC Commercial's and PMC Capital's quarterly operating results will fluctuate based on a number of factors, including, among others:

The completion of a structured loan sale transaction in a particular period;

Interest rate changes;

The volume and timing of loan originations and prepayments of PMC Commercial's and PMC Capital's loans receivable;

The recognition of gains or losses on investments;

The level of competition in each company's markets; and

General economic conditions, especially those which affect the hospitality industry.

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

To the extent a structured loan sale transaction is completed, (i) PMC Commercial's and PMC Capital's interest income on loans receivable in future periods will be reduced until the proceeds received are reinvested in new loan originations, (ii) interest expense will be reduced if PMC Commercial or PMC Capital repays outstanding debt with the proceeds and (iii) PMC Commercial and PMC Capital will earn income from their ownership of the retained interests in the loans receivable sold. Until the proceeds are fully reinvested, the net impact of a structured loan sale transaction on future operating periods should be a reduction in interest income, net of interest expense.

Risks Related to PMC Commercial

PMC Commercial is dependent on third party management of its hotel properties, which could result in additional costs or losses and negatively affect the cash available for distribution to its shareholders.

As a REIT, PMC Commercial cannot operate the hotel properties it owns. As a result, PMC Commercial is dependent upon a third party operator, Arlington Inns, Inc., a wholly-owned subsidiary of Arlington Hospitality, Inc. (Arlington) to operate and manage its hotel properties under a master lease agreement. The operating results of its hotel properties are subject to a variety of risks which could affect its ability to generate sufficient cash flow to support the payment obligations under the master lease agreement. In the event Arlington defaults on the master lease agreement, there can be no assurance that PMC Commercial would be able to find a new operator for its hotel properties, negotiate to receive the same amount of lease income or that PMC Commercial would be able to collect on the guarantee of the parent of Arlington. In addition, in the event Arlington defaults, PMC Commercial may incur costs including holding costs, legal fees and costs to re-franchise the properties.

Failure to qualify as a REIT would subject PMC Commercial to U.S. Federal income tax, which would reduce the cash available for distribution to its shareholders.

If a company meets certain income, asset diversification and income distribution requirements under the Internal Revenue Code, it can qualify as a REIT and be entitled to pass-through tax treatment. PMC Commercial would cease to qualify for pass-through tax treatment if PMC Commercial were unable to comply with these requirements. PMC Commercial would also be subject to a nondeductible 4% excise tax (and, in certain cases, corporate level income tax) if PMC Commercial were to fail to make certain distributions. Failure to qualify as a REIT would subject PMC Commercial to U.S. Federal income tax as if PMC Commercial were an ordinary corporation, resulting in a substantial reduction in both its net assets and

Table of Contents

the amount of income available for distribution to PMC Commercial's shareholders. PMC Commercial anticipates that it will continue to qualify as a REIT under the Internal Revenue Code.

Ownership limitation may restrict change of control or business combination opportunities in which shareholders of PMC Commercial might receive a premium for their shares.

In order for PMC Commercial to qualify as a REIT, no more than 50% in value of its outstanding capital shares may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. Individuals include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to preserve PMC Commercial's REIT status, its declaration of trust generally prohibits any shareholder from directly or indirectly owning more than 9.8% of any class or series of PMC Commercial's outstanding common shares or preferred shares.

The ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of PMC Commercial's common shares might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. See Description of PMC Commercial Shares of Beneficial Interest and U.S. Federal Income Tax Consequences REIT Qualification.

U.S. Federal income tax requirements may restrict PMC Commercial's operations, which could restrict PMC Commercial's ability to take advantage of attractive investment opportunities, which could negatively affect the cash available for distribution to its shareholders.

PMC Commercial believes it has operated and, following the merger, if completed, PMC Commercial intends to continue to operate in a manner that is intended to cause it to qualify as a REIT for U.S. Federal income tax purposes. However, the U.S. Federal income tax laws governing REITs are extremely complex, and interpretations of the U.S. Federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT will require PMC Commercial to meet various tests regarding the nature of its assets and its income, the ownership of its outstanding shares, and the amount of its distributions on an ongoing basis.

At any time, new laws, interpretations, or court decisions may change the federal tax laws regarding, or the U.S. Federal income tax consequences of, qualification as a REIT. In addition, compliance with the REIT qualification tests could restrict PMC Commercial's ability to take advantage of attractive investment opportunities in non-qualifying assets, which would negatively affect the cash available for distribution to its shareholders.

Failure to make required distributions would subject PMC Commercial to tax, which would reduce the cash available for distribution to its shareholders.

In order to qualify as a REIT, an entity generally must distribute to its shareholders, each taxable year, at least 90% of its taxable income, other than any net capital gain and excluding any retained earnings of taxable REIT subsidiaries. To the extent that a REIT satisfies the 90% distribution requirement, but distributes less than 100% of its taxable income, it will be subject to federal corporate income tax on its undistributed income. In addition, the REIT will incur a 4% nondeductible excise tax on the amount, if any, by which its distributions in any calendar year are less than the sum of:

85% of its ordinary income for that year;

95% of its capital gain net income for that year; and

100% of its undistributed taxable income from prior years.

PMC Commercial has paid out, and intends to continue to pay out, its REIT taxable income to its shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid both federal corporate income tax and the 4% excise tax. See U.S. Federal Income Tax Consequences REIT Qualification.

Table of Contents

PMC Commercial's taxable income may substantially exceed its net income as determined based on generally accepted accounting principles (GAAP) because, for example, capital losses will be deducted in determining its GAAP income, but may not be deductible in computing its taxable income. In addition, PMC Commercial may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, referred to as excess non-cash income. Although some types of non-cash income are excluded in determining the 90% distribution requirement, PMC Commercial will incur federal corporate income tax and the 4% excise tax with respect to any non-cash income items if it does not distribute those items on an annual basis. See U.S. Federal Income Tax Consequences REIT Qualification. As a result of the foregoing, PMC Commercial may generate less cash flow than taxable income in a particular year. In that event, PMC Commercial may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that it regards as unfavorable in order to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% excise tax in that year.

Adverse legislative or regulatory tax changes may affect the tax treatment of PMC Commercial or its shareholders.

At any time, the U.S. Federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect PMC Commercial or you, as a shareholder. On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduces the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary REIT dividends, which continue to be subject to tax at the higher tax rates applicable to ordinary income (a maximum rate of 35% under the new legislation). However, the new 15% maximum tax rate does apply to certain REIT distributions. See U.S. Federal Income Tax Consequences Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends. This legislation may cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs and may adversely affect the market price of the common shares of PMC Commercial.

PMC Commercial is subject to the Americans with Disabilities Act, which may adversely affect PMC Commercial's cash flow and may, in turn, negatively affect its ability to distribute dividends to its shareholders.

The Americans with Disabilities Act of 1990 (ADA) requires all public accommodations and commercial facilities to meet federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the U.S. Government or an award of damages to private litigants. Although PMC Commercial believes that the properties that it owns or finances are substantially in compliance with these requirements, a determination that the properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants. Pursuant to the master lease agreements relating to the hotel properties, costs and fines associated with the ADA are the responsibility of the tenant. However, a substantial expense may affect the borrowers' or tenants' ability to pay their obligations, and consequently, PMC Commercial's cash flow and the amounts available for distributions to shareholders may be adversely affected.

Risks Related to PMC Capital

No readily ascertainable market exists for valuing PMC Capital's investments and the value of its investments may differ materially from the value that would have been derived if a ready market existed for PMC Capital's investments.

Pursuant to the requirements of the 1940 Act, PMC Capital values its investments at fair value on a quarterly basis as determined in good faith by its board of directors. Since there is typically no readily ascertainable market value for the investments in its portfolio, PMC Capital's board of directors determines the fair value of these investments pursuant to a valuation policy and a consistently applied valuation process.

Table of Contents

There is no single standard for determining fair value. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments PMC Capital makes. Unlike banks, it is not permitted to provide a general reserve for anticipated losses. Instead, PMC Capital is required by the 1940 Act to specifically value each individual investment and record unrealized depreciation for an investment that it believes has become impaired or where collection of a loan is in doubt. Conversely, PMC Capital will record unrealized appreciation if it has an indication that the underlying assets in the portfolio have appreciated in value and therefore, its security has also appreciated in value, as appropriate. Due to the inherent uncertainty of valuation, fair value of PMC Capital's investments determined in good faith by its board of directors may differ from the values that would have been used had a ready market existed for the investments and the differences could be material.

PMC Capital is subject to government regulations affecting its assets acquired in liquidation, which may adversely affect its cash flow and may in turn, negatively affect the ability to distribute dividends to shareholders.

In conjunction with its assets acquired in liquidation, PMC Capital is subject to numerous Federal, state and local laws and government regulations including environmental, occupational health and safety, state and local taxes and laws relating to access for disabled persons.

Under various Federal, state and local laws, ordinances and regulations, a current or former owner or operator of real estate may be considered liable for the costs of remediating or removing hazardous substances found on its property, regardless of whether or not the property owner or operator was responsible for its presence. Such liability may be imposed regardless of fault and may be joint and several. PMC Capital has not been informed by the Environmental Protection Agency or any state or local government authority of any non-compliance likely to be material to its financial condition or results of operations.

PMC Capital is also subject to the ADA, which requires all public accommodations and commercial facilities to meet federal requirements related to access and use by disabled persons. Compliance with ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the United States government or an award of damages to private litigants. Although PMC Capital believes that the properties it owns are substantially in compliance with these requirements, a determination that the properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants.

Adverse legislative or regulatory tax changes may affect the tax treatment of PMC Capital or its shareholders.

At any time, the U.S. Federal income tax laws governing RICs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect PMC Capital or you, as a shareholder. On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduces the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary RIC dividends, which continue to be subject to tax at the higher tax rates applicable to ordinary income (a maximum rate of 35% under the new legislation). However, the new 15% maximum tax rate does apply to certain RIC distributions. See U.S. Federal Income Tax Consequences - Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends. This legislation may cause shares in non-RIC corporations to be a more attractive investment to individual investors than shares in RICs and may adversely affect the market price of the common shares of PMC Capital.

Table of Contents

Failure to qualify as a regulated investment company would subject PMC Capital to U.S. Federal income tax, which would reduce the cash available for distribution to shareholders.

PMC Capital intends to continue to qualify as a RIC under the Internal Revenue Code until the time of the merger. If a company meets certain income, asset diversification and income distribution requirements under the Internal Revenue Code, it can qualify for pass-through tax treatment. PMC Capital would cease to qualify for pass-through tax treatment if it was unable to comply with these requirements or if it ceased to qualify as an investment company under the 1940 Act. PMC Capital would also be subject to a nondeductible 4% excise tax (and, in certain cases, corporate level income tax) if PMC Capital was to fail to make certain distributions. Failure to qualify as a RIC would subject PMC Capital to Federal income tax as if it were an ordinary corporation, resulting in a substantial reduction in both its net assets and the amount of income available for distribution to its shareholders.

Table of Contents**SELECTED HISTORICAL FINANCIAL DATA****Selected Historical Financial Data of PMC Commercial**

The following tables set forth selected historical consolidated financial information for PMC Commercial. The selected historical information is presented as of and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2002 and 2003. PMC Commercial derived the historical information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 from its consolidated financial statements and the notes thereto, audited by PricewaterhouseCoopers LLP, independent accountants. The selected historical financial information as of and for the six months ended June 30, 2002 and 2003 has been derived from the unaudited financial statements which have been prepared by PMC Commercial's management on the same basis as the audited financial statements and, in the opinion of PMC Commercial's management, include all adjustments consisting of normal recurring accruals that are considered necessary for a fair presentation of the results for those periods. The results of operations for the six months ended June 30, 2002 and 2003 are not necessarily indicative of results to be anticipated for the entire year. The selected information set forth below should be read in conjunction with PMC Commercial's consolidated financial statements and related footnotes, as well as the disclosure under the heading "PMC Commercial Management's Discussion and Analysis of Financial Condition and Results of Operations," in this joint proxy statement/prospectus.

	Years Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
<i>(In thousands, except per share information)</i>							
Total revenues	\$ 18,939	\$ 21,261	\$ 19,038	\$ 16,407	\$ 16,036	\$ 8,365	\$ 7,415
Total expenses	\$ 7,805	\$ 11,466	\$ 11,559	\$ 8,230	\$ 7,640	\$ 3,985	\$ 3,874
Income from continuing operations	\$ 11,134	\$ 9,795	\$ 7,479	\$ 8,177	\$ 8,396	\$ 4,380	\$ 3,541
Discontinued operations	\$ 237	\$ 469	\$ 465	\$ 475	\$ 978	\$ 870	\$ 110
Gain on sales of assets	\$	\$	\$ 1,421	\$ 2,783	\$ 562	\$ 562	\$
Net income	\$ 11,371	\$ 10,264	\$ 9,365	\$ 11,435	\$ 9,936	\$ 5,812	\$ 3,651
Basic weighted average common shares outstanding	6,498	6,530	6,520	6,431	6,444	6,442	6,447
Basic and diluted earnings per common share:							
Income from continuing operations and gain on sale of assets	\$ 1.71	\$ 1.50	\$ 1.37	\$ 1.71	\$ 1.39	\$ 0.77	\$ 0.55
Net income	\$ 1.75	\$ 1.57	\$ 1.44	\$ 1.78	\$ 1.54	\$ 0.90	\$ 0.57
Dividends declared, common	\$ 11,592	\$ 12,016	\$ 11,367	\$ 9,789	\$ 10,440	\$ 5,155	\$ 5,029
Dividends declared per common share	\$ 1.78	\$ 1.84	\$ 1.75	\$ 1.52	\$ 1.62	\$ 0.80	\$ 0.78

	At December 31,					At June 30,	
	1998	1999	2000	2001	2002	2002	2003
<i>(In thousands)</i>							
Loans receivable, net	\$ 119,712	\$ 115,265	\$ 65,645	\$ 78,486	\$ 71,992	\$ 56,065	\$ 89,614
Real estate investments, net	\$ 61,774	\$ 70,683	\$ 65,674	\$ 52,718	\$ 44,928	\$ 45,618	\$ 44,283
Real estate investments, held for sale, net	\$	\$	\$	\$	\$ 1,877	\$ 1,877	\$ 1,877
Retained interests in transferred assets	\$	\$	\$ 11,203	\$ 17,766	\$ 23,532	\$ 23,267	\$ 22,686
Total assets	\$ 196,690	\$ 197,237	\$ 151,399	\$ 156,347	\$ 149,698	\$ 143,519	\$ 165,085
Notes payable and revolving credit facility	\$ 95,387	\$ 97,757	\$ 53,235	\$ 57,070	\$ 48,491	\$ 44,068	\$ 64,588
Beneficiaries' equity	\$ 93,437	\$ 91,932	\$ 89,785	\$ 92,771	\$ 93,929	\$ 94,330	\$ 92,292
	\$ 196,690	\$ 197,237	\$ 151,399	\$ 156,347	\$ 149,698	\$ 143,519	\$ 165,085

Total liabilities and beneficiaries
equity

Table of Contents**Selected Historical Financial Data of PMC Capital**

The following tables set forth selected historical consolidated financial information for PMC Capital. The selected historical information is presented as of and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2002 and 2003. PMC Capital derived the historical information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 from its consolidated financial statements and the notes thereto, audited by PricewaterhouseCoopers LLP, independent accountants. The selected historical financial information as of and for the six months ended June 30, 2002 and 2003 has been derived from the unaudited financial statements which have been prepared by PMC Capital's management on the same basis as the audited financial statements and, in the opinion of PMC Capital's management, include all adjustments consisting of normal recurring accruals that are considered necessary for a fair presentation of the results for those periods. The results of operations for the six months ended June 30, 2002 and 2003 are not necessarily indicative of results to be anticipated for the entire year. The selected information set forth below should be read in conjunction with PMC Capital's consolidated financial statements and related footnotes, as well as the disclosure under the heading "PMC Capital Management's Discussion and Analysis of Financial Condition and Results of Operations," in this joint proxy statement/prospectus.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
<i>(In thousands, except per share information)</i>							
<i>Operating Data:</i>							
Total investment income	\$ 24,314	\$ 22,627	\$ 21,584	\$ 20,752	\$ 16,662	\$ 8,753	\$ 7,456
Net investment income	\$ 13,223	\$ 11,487	\$ 10,304	\$ 9,344	\$ 5,956	\$ 3,340	\$ 2,345
Sale of assets	\$ 925	\$ 2,564	\$ 564	\$ 2,732	\$ 1,446	\$ 1,463	\$
Net income	\$ 13,949	\$ 13,420	\$ 11,253	\$ 10,567	\$ 5,983	\$ 4,144	\$ 1,746
Dividends declared, common	\$ 14,473	\$ 12,007	\$ 11,846	\$ 10,076	\$ 6,638	\$ 3,794	\$ 2,845
<i>Basic and diluted earnings per common share:</i>							
Net investment income	\$ 1.10	\$ 0.95	\$ 0.85	\$ 0.77	\$ 0.48	\$ 0.27	\$ 0.19
Net income	\$ 1.16	\$ 1.11	\$ 0.93	\$ 0.87	\$ 0.48	\$ 0.34	\$ 0.14
Dividends declared per common share	\$ 1.23	\$ 1.02	\$ 1.00	\$ 0.85	\$ 0.56	\$ 0.32	\$ 0.24
Basic weighted average common shares outstanding	11,800	11,829	11,841	11,854	11,854	11,854	11,854
<i>Balance Sheet Data:</i>							
Loans receivable	\$ 116,711	\$ 106,325	\$ 100,353	\$ 107,392	\$ 87,245	\$ 67,193	\$ 94,976
Retained interests in transferred assets	\$ 20,151	\$ 28,423	\$ 32,341	\$ 33,537	\$ 40,003	\$ 40,138	\$ 37,644
Total assets	\$ 163,349	\$ 165,191	\$ 161,478	\$ 162,698	\$ 140,266	\$ 162,528	\$ 144,803
Current and long-term debt	\$ 74,790	\$ 73,973	\$ 72,977	\$ 76,310	\$ 54,310	\$ 76,310	\$ 60,568
Cumulative preferred stock of subsidiary	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Common shareholders equity	\$ 72,151	\$ 73,314	\$ 72,667	\$ 72,908	\$ 72,003	\$ 71,508	\$ 70,779
Number of common shares outstanding	11,829	11,829	11,854	11,854	11,854	11,854	11,854
<i>Other Data:</i>							
Loans funded	\$ 66,450	\$ 84,264	\$ 44,158	\$ 65,977	\$ 46,138	\$ 19,468	\$ 19,561

Table of Contents**SELECTED STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED****FINANCIAL DATA AND COMPARATIVE PER SHARE DATA****Selected Unaudited Proforma Consolidated Financial Data**

The following tables set forth unaudited pro forma condensed consolidated financial data for PMC Commercial and PMC Capital as a consolidated entity, giving effect to the merger as if it had occurred on the dates indicated and after giving effect to the pro forma adjustments. The unaudited pro forma condensed consolidated operating data are presented as if the merger had been completed on January 1, 2002. The unaudited pro forma condensed consolidated balance sheet data at June 30, 2003 is presented as if the merger had occurred on June 30, 2003. In the opinion of management of PMC Commercial, all adjustments necessary to reflect the effect of these transactions have been made. The merger will be accounted for under the purchase method of accounting as provided by Statement of Financial Accounting Standard No. 141. Based on PMC Commercial's current estimate of value for the PMC Capital assets to be acquired in the amount of approximately \$143.2 million, and liabilities and preferred stock to be assumed in the amount of approximately \$71.0 million, PMC Commercial will record an extraordinary gain in the amount of approximately \$13.9 million.

The unaudited pro forma condensed consolidated financial data should be read together with the respective historical audited and unaudited consolidated financial statements and financial statement notes of PMC Commercial and PMC Capital in this joint proxy statement/ prospectus and the Unaudited Pro Forma Consolidated Financial Information. The unaudited pro forma condensed consolidated financial data are presented for comparative purposes only and does not necessarily indicate what the future operating results or financial position of PMC Commercial will be following completion of the merger. The unaudited pro forma condensed consolidated financial data does not include adjustments to reflect any cost savings or other operational efficiencies that may be realized as a result of the merger of PMC Commercial and PMC Capital or any future merger related restructuring or integration expenses.

	Pro Forma (Unaudited)	
	Year Ended December 31, 2002	Six Months Ended June 30, 2003
<i>(In thousands, except per share information)</i>		
Statements of Income Data:		
Total revenues	\$ 30,500	\$ 13,806
Total expenses	18,187	7,543
Income from continuing operations	12,313	6,263
Earnings per share data:		
Basic weighted average common shares outstanding	10,830	10,833
Income from continuing operations	\$ 1.11	\$ 0.56

	Pro Forma (Unaudited) June 30, 2003	
	<i>(In thousands)</i>	
Balance Sheet Data:		
Loans receivable, net	\$ 184,590	
Retained interests in transferred assets	\$ 60,330	
Real estate investments, net	\$ 44,283	
Real estate investments, held for sale, net	\$ 1,877	
Total assets	\$ 307,330	
Debt - current and long-term	\$ 125,677	
Cumulative preferred stock of subsidiary	\$ 4,250	
Total beneficiaries' equity	\$ 162,987	

Table of Contents**Comparative Per Share Data**

The following tables set forth certain per common share information for PMC Commercial and PMC Capital on a historical basis, pro forma basis for PMC Commercial and an equivalent pro forma basis for PMC Capital. The PMC Capital equivalent pro forma per share amounts are calculated by multiplying the pro forma per share amounts for PMC Commercial by the common stock exchange ratio of 0.37.

The following information should be read together with the historical and pro forma financial statements in this joint proxy statement/prospectus.

	Six Months Ended June 30, 2003			
	PMC Commercial Historical	PMC Capital Historical	PMC Commercial Pro Forma	PMC Capital Equivalent Pro Forma
Basic and diluted income from continuing operations per common share	\$ 0.55	\$0.14(1)	\$ 0.56	\$0.21
Cash distributions per common share	\$ 0.78	\$0.24	\$ 0.78(2)	\$0.29
Book value per common share	\$ 14.32	\$5.97	\$ 15.05	\$5.57

- (1) *PMC Capital's historical financial statements do not include discontinued operations. Accordingly, the amount represents net increase in net assets resulting from operations (e.g. net income) per share. As a historical fair value reporter, this amount includes both valuation increases and valuation decreases of its investment portfolio.*
- (2) *PMC Commercial does not anticipate that there will be any change from its historical distribution policy as a result of the merger.*

	Year Ended December 31, 2002			
	PMC Commercial Historical	PMC Capital Historical	PMC Commercial Pro Forma	PMC Capital Equivalent Pro Forma
Basic and diluted income from continuing operations per common share	\$ 1.30	\$0.48(1)	\$ 1.11	\$0.41
Cash distributions per common share	\$ 1.62(3)	\$0.56	\$ 1.62(2)(3)	\$0.60
Book value per common share	\$ 14.57	\$6.07	\$	\$

- (1) *PMC Capital's historical financial statements do not include discontinued operations. Accordingly, the amount represents net increase in net assets resulting from operations (e.g. net income) per share. As a historical fair value reporter, this amount includes both valuation increases and valuation decreases of its investment portfolio.*
- (2) *PMC Commercial does not anticipate that there will be any change from its historical distribution policy as a result of the merger.*
- (3) *Includes a \$0.02 year-end special dividend.*

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/ prospectus contains forward looking statements. These statements may be made directly in this joint proxy statement/ prospectus by reference to other documents filed with the SEC by PMC Commercial or PMC Capital, and they also may be incorporated by reference into this joint proxy statement/ prospectus. These statements may include statements regarding the period following the completion of the merger and the transactions contemplated by the merger agreement.

Some of the forward-looking statements can be identified by the use of forward-looking words such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates or anticipates or the negative of those words or other comparable terminology. Statements concerning projections, future performance, developments, events, market forecasts, revenues, expenses, earnings, run rates and any other guidance on present or future periods constitute forward-looking statements. These forward-looking statements are subject to a number of factors, risks and uncertainties that might cause actual results to differ materially from stated expectations or current circumstances. These factors include, but are not limited to, the overall environment for interest rates, prepayment speeds, risk associated with equity investments, competition for business and personnel and general economic, political, and market conditions. In addition to the risks related to the business of PMC Commercial and PMC Capital, the factors related to the merger and PMC Commercial discussed under Risk Factors, among others, could cause actual results to differ materially from those described in the forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this joint proxy statement/ prospectus or as of the date of any document incorporated by reference in this joint proxy statement/ prospectus, as applicable. Neither PMC Commercial nor PMC Capital is under any obligation, and each expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All forward-looking statements in this joint proxy statement/ prospectus attributable to PMC Commercial and PMC Capital or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Table of Contents

THE PMC COMMERCIAL ANNUAL MEETING

PMC Commercial is furnishing this joint proxy statement/prospectus and the accompanying Notice of Annual Meeting and proxy card to PMC Commercial shareholders as part of the solicitation of proxies by the PMC Commercial board of trust managers for use at the PMC Commercial annual meeting.

Date, Time and Place of PMC Commercial Annual Meeting

PMC Commercial will hold the PMC Commercial annual meeting on Tuesday, December 30, 2003, at 11:00 a.m., local time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Purpose of the PMC Commercial Annual Meeting

At the PMC Commercial annual meeting, PMC Commercial is asking holders of record of PMC Commercial common shares to consider and vote on the following proposals:

The approval of the merger agreement by and between PMC Commercial and PMC Capital and the transactions contemplated by the merger agreement.

The approval of proposed amendments to PMC Commercial's declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders, and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.

The election of seven trust managers to serve until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

As determined by the holder of the proxy in his or her discretion with respect to any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

See The Merger Proposal and Description of the Merger Agreement.

The PMC Commercial board of trust managers unanimously recommends that PMC Commercial shareholders vote for approval of the merger agreement and the transactions contemplated by the merger agreement, for approval of the proposed amendments to PMC Commercial's declaration of trust, for the election of the trust managers, for the ratification of PricewaterhouseCoopers LLP, and for the approval of the postponement or adjournment of the PMC Commercial annual meeting, if necessary.

Record Date

Only holders of record of PMC Commercial common shares at the close of business on November 10, 2003, the PMC Commercial record date, are entitled to notice of and to vote at the PMC Commercial annual meeting. On the PMC Commercial record date, approximately 6,449,291 PMC Commercial common shares were issued and outstanding and held by approximately 600 holders