FRANKLIN CREDIT MANAGEMENT CORP/DE/
Form 10KSB
April 02, 2001

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2000

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

For the transition period from _____________ to _____________

Commission file number 0-17771

FRANKLIN CREDIT MANAGEMENT CORPORATION
(Exact name of small business issuer as specified in its charter)

Delaware	75-2243266
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identif

Six Harrison Street
New York, New York 10013
(212) 925-8745
(Address of principal executive offices, including zip code, and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

Issuer's revenues for its most recent fiscal year: $ 29,047,390

As of March 15, 2001 the issuer had 5,916,527 of shares of Common Stock, par value $0.01 per share, outstanding. On that date, the aggregate market value of the voting stock held by persons other than those who may be deemed affiliates of the issuer was $1,952,454 (based on the average of the reported closing bid and ask price on such date).

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes X No .

Transitional Small Business Disclosure Format: Yes No X

Portions of the registrant's definitive proxy statement, which will be filed within 120 days of December 31, 2000, are incorporated by reference into Part III.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS OF REGISTRANT. Franklin Credit Management Corporation ("FCMC", and together with its wholly-owned subsidiaries, the "Company") is a specialty consumer finance and asset management company primarily engaged in the acquisition, servicing and resolution of performing, sub-performing and non-performing residential mortgage loans and residential real estate. The Company's portfolio consists primarily of non-conforming subprime assets. Mortgage loans are purchased at a discount relative to the aggregate unpaid principal balance of the loans and real estate is acquired in foreclosure or otherwise at a discount relative to the appraised value of the asset.

During 2000, the Company took advantage of market opportunities to increase its volume of loan acquisitions and pursued its strategy of acquiring primarily higher coupon, non-investment grade performing loans. As a result, the proportion of its portfolio comprised of such loans increased during 2000. The Company expects to continue this strategy, as well as increase both the pace and amount of acquisitions, during 2001.

The Company believes it has built a servicing infrastructure and developed a servicing expertise, which permits the expansion of the Company's portfolio with a minimal increase in incremental costs. In addition, the Company believes that its ability to service and rehabilitate loans reduces its reliance on secondary marketing of portfolios and may provide an advantage as compared to competitors that rely on the secondary market as their primary strategy.

In January 1997, the Company formed a wholly owned subsidiary, Tribeca Lending Corp. ("Tribeca"), to originate primarily subprime residential mortgage loans made to individuals whose credit histories, income and other factors cause them to be classified as non-conforming borrowers. Management believes that lower credit quality borrowers present an opportunity for the Company to earn superior returns for the risks assumed. Tribeca provides first and second mortgages that are originated on a retail basis through marketing efforts that include utilization of the FCMC database. Tribeca is currently licensed as a mortgage banker in Alabama, California, Colorado, Connecticut, District of Columbia, Florida, Georgia, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, New York, New Jersey, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Washington State, and West Virginia and is a Department of Housing and Urban Development FHA Title I and Title II approved lender. Tribeca originated loans are typically expected to be sold in the secondary market through whole-loan, servicing-released sales. Tribeca anticipates holding certain of its mortgages in its portfolio when it believes that the return from holding the mortgage, on a risk-adjusted basis, outweighs the return from selling the mortgage in the secondary market.

Since commencing operations in 1990, the Company has purchased, in aggregate, approximately 19,854 loans with a face value of approximately $554 million. Approximately $175 million, or 32%, of these loans were purchased from the Resolution Trust Company ("RTC") and, when the RTC ceased to function, the FDIC. The remaining $379 million of these loans were purchased from private institutions. The Company seeks to develop relationships with mortgage bankers, banks, and other specialty finance companies which may, through on-going purchase arrangements, provide additional sources of mortgage portfolios, individual mortgage assets and real estate assets.

During the year ended December 31, 2000, the Company purchased 2,907 loans with an aggregate face value of $113 million at an aggregate purchase price of $96 million or 85% of face value. As of December 31, 2000, the Company's portfolio included approximately 8,129 loans with an aggregate face value of $255 million. An allowance for loan losses of approximately $24 million has been recorded against this face value. At December 31, 2000, approximately 88% of the Company's loan portfolio consisted of first mortgages, home equity/home improvement and second mortgages collateralized by real estate, 9% consisted of loans collateralized by other assets, and 3% consisted of unsecured loans. Although the Company attempts to collect on all loans in its portfolio, it is unlikely that the Company will be successful in collecting the full amount due for each loan in its portfolio. In addition, significant administrative and litigation expenses are often incurred in its collection efforts. See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7. Financial Statements".

Occasionally, the Company sells portfolios of performing and reperforming loans on a whole loan basis. During 2000, the Company sold 94 performing loans with an aggregate face value of $8 million, and 39 non-performing loans with an aggregate face value of $5 million. During 1999 the Company sold 130 performing loans with a face value of $5 million. The Company expects to continue this strategy, if favorable opportunities to do so continue to present themselves.

As of December 31, 2000, the Company owed an aggregate of $231 million ("Senior Debt") to a bank (the "Senior Debt Lender"), which was incurred in connection with the purchase of, and is secured by, the Company's loan and OREO (Other Real Estate Owned) portfolios. In March 2000, in connection with continuing increases in the availability extended to the Company, the Company's Senior Debt agreement was amended to provide that interest on Senior Debt accrues at variable rates between 0% and 2.00% over a fixed rate of 8.75%. At December 31, 2000, the weighted average interest rate on Senior Debt was 9.16%. The Senior Debt Lender has advised the Company that as of December 31, 2000, there was $23 million of Senior Debt available to be used by the Company to purchase additional portfolios of mortgage loans. The continued willingness of the Senior Debt Lender to provide funding is a critical component of the Company's acquisition strategy, although there can be no assurance that such willingness will continue.

The Company employs standardized in-house servicing procedures in the acquisition, origination, and collection of loans. The Company is divided into five operating departments, which are described below:

Acquisition Department. The Acquisition Department divided into a bulk purchase unit, which is responsible for acquisitions in excess of $1 million and a flow facility, which is responsible for acquisitions less than $1 million. The Acquisition Department identifies opportunities to purchase portfolios of mortgage loans, performs due diligence, and assists in the integration of the acquired assets into the Company's existing portfolio. The due diligence process, with respect to loan purchases, includes an analysis of the majority of loans in a portfolio, evaluating, among other things, lien position and value of collateral, debt-to-income ratios, the borrower's creditworthiness, employment stability, years of home ownership, education, credit bureau reports and mortgage payment history. The Acquisition Department generally conducts on-sight reviews of the loan files comprising the portfolio, and where appropriate performs an on-site evaluation of the seller's loan servicing department. This process often provides the Company additional information critical to properly evaluating the portfolio. The information derived from due diligence is compared to the Company's historical statistical data base, and coupled with the Company's cumulative knowledge of the sub-prime mortgage industry enables the Acquisition Department to project a collection strategy and estimate the collectibility and timing of cash flows with respect to each loan. Based upon this information, the Acquisition Department prepares a bid,

which meets the Company's established pricing and yield guidelines. When loans are acquired the Acquisition Department, with the assistance of the Management Information Systems staff ("MIS"), monitors the electronic transfer of loan data into the Company's data management system.

Service Department. The Service Department manages the Company's performing loans and seeks to provide quality service to customers and secure full payment of the total face value and accrued charges, by monitoring monthly cash receipts, maintaining customer relations and, where appropriate, entering into extension and modification agreements. The Service Department is responsible for the maintenance of real estate tax and insurance escrow accounts. Service Department members continuously review and monitor the status of collections and individual loan payments in order to proactively identify and solve potential collection problems as well as identify potential loans for sale to third parties or refinance though Tribeca. Upon acquisition of loan portfolios, the Service Department, in conjunction with MIS: (i) issues introductory letters with information regarding the change of ownership of the loan, payment information and a toll-free Company information telephone number; (ii) conducts internal audits of newly acquired loans to identify and address any disputes or problems relating to the accounting for these loans; and (iii) issues an audit letter advising the borrower of the outstanding balance, last payment date and remaining term of the loan. As of December 31, 2000, the Service Department managed approximately 6,667 loan accounts, with a total principal outstanding balance of approximately $212 million.

Legal Department. The Legal Department manages and monitors the progress of defaulted loans requiring a legal action or other loss mitigation strategy. These loans are identified and referred by the Acquisition or Service Departments to the Legal Department, which prepares an analysis of each loan to determine a litigation or collection strategy to maximize the size and speed of recovery and minimize costs. This strategy is based upon the individual borrowers' past payment history, ability to pay, collateral lien position and current value of the collateral. The Legal Department sets the collection strategy, negotiates settlements, modification and forbearance agreements, and when appropriate retains outside counsel, manages their costs, and monitors ensuing litigation to insure the optimal recovery of the remaining principal and interest balance. The Legal Department monitors each defaulted loan through the foreclosure process, recovery of a money judgment or other settlement, and continues to monitor recovery of deficiency balances after a foreclosure has been completed. As of December 31, 2000, the Legal Department managed approximately 1,462 loans, with a total principal outstanding balance of approximately $ 43 million.

Real Estate Department. The Real Estate Department manages all properties in order to preserve their value, realize rental income and insure that maximum returns are realized upon sale. The Real Estate Department is responsible for both the sale of OREO as well as for OREO that are held as rental properties until such time as an economically beneficial sale can be arranged. As Of December 31, 2000, the Real Estate Department managed approximately 104 OREO properties, of which 47 were rental properties. The Company seeks to rent those properties for which it believes it can realize a higher return from such rental than from the value expected to be realized in the sale of the property.

Subprime Residential Lending. Tribeca provides first and second mortgages to individuals interested in refinancing performing loans in the Company's existing database. Tribeca focuses on developing an array of niche products to fulfill needs such as rehabilitation, high loan to value ("LTV"), sub-prime, non-conforming and second mortgages. Loans are originated by a retail sales force, which utilizes telemarketers to generate leads from the Company's database of serviced loans. The majority of loans are expected to be warehoused until the inventory reaches the critical mass needed to maximize profits through bulk sales in the secondary market. Tribeca's staff processes, underwrites and closes all loans in its own name.

During 2000, Tribeca originated 118 mortgages with an aggregate principal balance of $8.2 million. During 1999, Tribeca originated 31 mortgages with an aggregate principal balance of $2.5 million.

Tribeca Loan Origination Volume for 2000

	FHA	1st Mortgage	2nd Mortgage	Total
Face Value	0	$6,720,887	$1,571,367	$8,292,254
Loans	0	79	39	118

FORMATION OF THE COMPANY. The Company was organized in Delaware in 1990, by Thomas J. Axon, and Frank B. Evans, Jr., for the purpose of acquiring consumer loan portfolios from the RTC and the FDIC. In March 1993, the Company completed the private placement of $2,000,000 of 15% Debentures (the "15% Debentures") and warrants for the purchase of the Company's Common Stock, the proceeds of which were used to acquire interests in loan portfolios and for operations. In December 1994, the Company merged with Miramar Resources, Inc., a public oil and gas company organized in Delaware that had emerged from bankruptcy proceedings on December 6, 1993. In January 1995, the Company completed the private placement of $705,000 of 12% Debentures (the "12% Debentures"), the proceeds of which were used to fund the acquisition of a loan portfolio, including amounts advanced by stockholders, service existing debt obligations and for general working capital. Additionally, in late 1995, the Company completed the private placement of $555,000 of 12% Debentures (the "Harrison 1st Debentures"), the proceeds of which were used to fund the acquisition of an additional loan portfolio. Prior to 1995 the Company purchased all portfolios through funds raised through limited partnerships. In 1995, nearly all of the remaining limited partnership interests were purchased by the Company.

COMPETITION. The Company faces significant competition in the acquisition of loan portfolios. Many of the Company's competitors have financial resources, acquisition departments and servicing capacity considerably larger than the Company's. Among the Company's largest competitors are EMC Mortgage Corporation and Bayview Financial Trading Group. Competition for acquisitions is generally based on price, reputation of the purchaser, funding capacity and timing. See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations: General - Cost of Funds".

The market for subprime loan origination is also highly competitive. Tribeca competes with savings banks, mortgage brokers, and wholesale originators for the origination of mortgages. Among the largest of these competitors are First Union, NationsBank, FHB, Household Financial Service and Champion Mortgage. Many of Tribeca's competitors possess greater financial resources, longer operating histories, and lower costs of capital than Tribeca. Competition for mortgage originations is based upon marketing efforts, loan processing capabilities, funding capacity, loan product desirability and the ability to sell the loans for a premium in the secondary market.

The Company also experiences competition from mortgage and finance companies in the sale of reperforming and newly originated loan portfolios. The continued tightening of credit requirements in the capital markets has decreased both the demand for pools of performing mortgages which may later be packaged in a securitization, as well as the prices paid for portfolios offered for sale. Important characteristics which impact competition in this market are price, loan-to-value, size of pools and the

integrity of portfolio data. The Company faces intense competition from numerous companies seeking to re-sell mortgage portfolios in the marketplace. Nearly all of the Company's competitors have greater experience and volume to supply to buyers. The Company believes that its management information system and its continuous review and monitoring of accounts, along with asset availability from new portfolio acquisitions and originations should position the Company to compete efficiently in the sale of loan portfolios.

CUSTOMERS. The Company's revenue is derived from interest and purchase discount recognized from the collection of loans, origination fees, rental income, gains recorded from the bulk sale of performing, non-performing and originated loans to banks and other financial institutions, and the result recorded from the sale of OREO. The Company's borrowers are a diverse population and no single borrower represents a significant portion of the Company's loans. The Company will sell bulk portfolios of performing and non-performing loans, when such sales are economically beneficial to the Company. As of March 30, 2001, there has been two bulk sales of loans during 2001 for an aggregate face value of $6.5 million. While the Company has previously been successful in marketing loan portfolios, which it has sold, and believes there are sufficient buyers for its products, there can be no assurance that the Company will be able to successfully market loan portfolios in the future.

Suppliers. The Company acquires its loans through a variety of sources including private and public auctions, negotiated sales, ongoing purchase agreements, and joint-bids with other institutions. The supply of assets available for purchase by the Company is influenced by a number of factors including knowledge by the seller of the Company's interest in purchasing assets, the general economic climate, financial industry regulation, and new loan origination volume. While the Company continues to pursue additional sources for purchasing assets, there can be no assurance that existing and future sources will provide sufficient opportunities for the

Company to purchase assets at favorable prices. Prior to 1996 the RTC, and the FDIC, represented the source of the majority of the Company's loan purchases. During the past year, two institutions supplied the Company with 44% all of its portfolio acquisitions, as measured by purchase price. The Company's sources of loan acquisition have varied from year to year and the Company expects that this will continue to be the case. During the year the Company created a niche for itself purchasing small individual loans from various sources. During the year the Company created a niche for itself purchasing individual assets, or pools of assets under a million dollars from various sources. The Company believes that this market is under served and may open up additional opportunities to establish relationships with a continuous supply of loans that would not be available through periodic bulk purchases.

Regulation. The Company's lending activities are subject to the Federal Truth-in-Lending Act ("TILA") and Regulation Z (including the Home Ownership and Equity Protection Act of 1994), the Equal Credit Opportunity Act of 1974, as amended ("ECOA") and Regulation B, the Fair Credit Reporting Act of 1970, as amended, the Real Estate Settlement Procedures Act of 1974, as amended ("RESPA") and Regulation X, the Home Mortgage Disclosure Act ("HMDA") and Regulation C, the Federal Debt Collection Practices Act and the Fair Housing Act, as well as other federal and state statutes and regulations affecting the Company's activities. Failure to comply with these requirements can lead to loss of approved status, demands for indemnification or mortgage loan repurchases, certain rights of recision for mortgage loans, class action lawsuits and administrative enforcement actions.

The Company is subject to the rules and regulations of, and examinations by, the Department of Housing and Urban Development ("HUD"), the Federal Housing Administration and other federal and state regulatory authorities with respect to originating, underwriting, funding, acquiring, selling and servicing mortgage loans. In addition, there are other federal and state statutes and regulations affecting such

activities. These rules and regulations, among other things, impose licensing obligations on the Company, establish eligibility criteria for loans, prohibit discrimination, provide for inspection and appraisals of properties, require credit reports on prospective borrowers, regulate payment features and, in some cases, fix maximum interest rates, fees and loan amounts. The Company is required to submit annual audited financial statements to various governmental regulatory agencies that require the maintenance of specified net worth levels.

TILA requires a written statement showing an annual percentage rate of finance charges and requires that other information be presented to debtors when consumer credit contracts are executed. RESPA requires written disclosure concerning settlement fees and charges, mortgage-servicing transfer practices and escrow or impound account practices. It also prohibits the payment or receipt of "kickbacks" or referral fees in connection with the performance of settlement services. The Fair Credit Reporting Act requires certain disclosures to applicants concerning information that is used as a basis for denial of credit. HMDA requires collection and reporting of statistical data concerning the loan transaction. ECOA prohibits discrimination against applicants with respect to any aspect of a credit transaction on the basis of sex, marital status, race, color, religion, national origin, age, derivation of income from public assistance programs, or the good faith exercise of a right under the Federal Consumer Credit Protection Act. The Fair Housing Act prohibits discrimination in mortgage lending on the basis of race, color, religion, sex, handicap, familial status or national origin.

The interest rates which the Company may charge on its loans are subject to state usury laws, which specify the maximum rate, which may be charged to consumers. In addition, both federal and state truth-in-lending regulations require that the Company disclose to its borrowers prior to execution of the loans all material terms and conditions of the financing, including the payment schedule and total obligation under the loans. The Company believes that it is in compliance in all-material respects with such regulations.

Failure to comply with any of the foregoing federal and state laws and regulations could result in the imposition of civil and criminal penalties on the Company, class action lawsuits and administrative enforcement actions. The Company does not expend material amounts of financial resources complying with federal, state or local laws and regulations.

Environmental Matters. In the course of its business the Company has acquired, and may acquire in the future, properties securing loans that are in default. It is possible that hazardous substances or waste, contamination, pollutants or sources thereof could be discovered on such properties after acquisition by the Company. In such event, the Company may be required by law to remove such substances from the affected properties at its sole cost and expense. There can be no assurance that (i) the cost of such removal would not substantially exceed the value of the affected properties or the loans secured by the properties, (ii) the Company would have adequate remedies against the prior owner or other responsible parties, or (iii) the Company would not find it difficult or impossible to sell the affected properties either prior to or following such removal.

Employees. As of December 31, 2000, the Company had 78 full-time employees, including 7 in the Acquisitions Department, 26 in the Service Department, 8 in the Legal Department, 3 in the Real Estate Department, 5 in the Accounting Department, 4 in the MIS Department, 7 clerical employees, 8 managerial employees, and 10 employees in Tribeca.

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The Company has never experienced a material work stoppage or slowdown due to labor disagreements. The Company believes that its relations with all employees are satisfactory. None of the Company's employees are covered by a collective bargaining agreement.

Business Segments. The Company has two reportable segments (i) portfolio asset acquisition and resolution, and (ii) mortgage banking. The portfolio asset acquisition and resolution segment acquires nonperforming, nonconforming and subperforming notes receivable and promissory notes from financial institutions, mortgage and finance companies and services and collects such notes receivable through enforcement of terms of original note, modification of original terms and, if necessary, liquidation of the underlying collateral. The mortgage-banking segment, conducted through Tribeca, originates residential mortgage loans for individuals whose credit histories, income and other factors cause them to be classified as non-conforming borrowers.

ITEM 2. DESCRIPTION OF PROPERTIES

Properties. The Company owns a 6,600 square foot office condominium unit located on the Sixth Floor of Six Harrison Street, New York, New York, which houses its principal offices. See "Item 12. Certain Relationships and Related Transactions." In addition, the Company leases approximately 6,400 square feet of office space at 99 Hudson Street, New York, New York, which houses the Service Department as well as the Accounting Department. The lease expires on January 31, 2009 and is at an average approximate annual rent of $123,000. In November of 2000 the Company sub-leased additional office space located on the Fifth Floor of Six Harrison Street, New York, which now houses Tribeca Lending. The lease expires on September 1, 2004 and is at an average approximate annual rent of $48,300.

OREO Properties. The Company owns OREO in various parts of the country that were acquired through acquisition or foreclosure. The vast majority of these properties are coops and condos, with the remainder being comprised of single-family homes and commercial property. The Company acquires or forecloses on property primarily with the intent to sell such property at a profit, or rents the property until an economically beneficial sale can be made. If such a decision is made then a further investment in the property, in the form of repairs and improvements, may be necessary. Any improvements to OREO property are evaluated independently and decisions are made based on whether the additional investment would generate an additional return.

ITEM 3. LEGAL PROCEEDINGS

Asset Purchase Agreement Dispute. On August 19, 1997, the Company commenced a civil action in the United States District Court for the Southern District of New York against Preferred Credit Corporation ("PCC") and certain individuals alleging fraud, breach of contract, and unjust enrichment in connection with the purchase by the Company of $3.7 million in face value of notes receivable from PCC for $1.8 million. Through the Complaint, the Company sought rescission of the asset purchase agreement or damages incurred in connection with the purchase.

By an order dated September 22, 1999, the Court dismissed one of the Company's fraud claims against PCC and all of the Company's claims against the individual Defendants. On October 22, 1998, PCC filed an answer and counterclaim alleging a breach of the purchase agreement and seeking its costs and fees incurred in connection with the proceeding.

Trial in this matter was held on the remaining claims during January 2000. At the conclusion of the trial, the Court orally ruled in favor of the Company and against PCC. On February 10, 2000, the Court

entered judgment in favor of the Company and against PCC in the amount of $1.7 million plus interest from May 7, 1997. With interest, the amount due under the judgment is approximately $2 million as of February 10, 2000. The Company is currently in the process of attempting to collect the amount due under the judgment. The Company does not presently known if PCC has sufficient assets to satisfy the judgment. The Company has collected $ 60,000 towards this receivable, as of December 31, 2000 the current value of these loans is not currently known.

Legal Fee Dispute. On October 28, 1997, Rosen, Dainow & Jacobs ("Rosen") filed a civil action against the Company in the Supreme Court of the State of New York, County of New York alleging failure by the Company to pay legal fees allegedly due Rosen. Rosen, now dissolved, had represented the Company in a federal trademark action that is no longer pending. Rosen withdrew from representation of the Company when James Jacobs, the lead attorney for the Company in the trademark action, joined a firm that was representing the Company's adversary in other matters. The complaint seeks $145,000 in damages. Trial in this matter commenced on October 22, 2000. During the course of the trial, the Company agreed to pay $55,000 to Rosen in full settlement of the matter and the case was dismissed. Pursuant to the settlement, the payment to Rosen was made on November 24, 2000.

Other Legal Actions. Since July, 1991, the Company has been a plaintiff in various actions ("Miramar Litigation") and party to settlements, with the former directors and officers of Miramar Resources, Inc. ("Miramar"), a company which the Company merged with in 1994, based upon allegations relating to certain premerger events. Information regarding the Miramar Litigation, as well as certain settlements (the "Schultz Settlements"), and the legal status of the Company's collection efforts is incorporated herein by reference to "Item 3. Legal Proceedings" included in the Company's Form 10-KSB for the year ended December 31, 1994, filed with the SEC on March 31, 1995 and included in the Company's 10-KSB for the year ended December 31, 1996, filed with the SEC on March 31, 1997.

During 1997 the Company initiated efforts to foreclose on its Deed of Trust on a 4,000-acre ranch owned by the parties to the original Shultz Settlement. Trial in this matter was held in November of 1999 and the Company obtained a judgment of $600,000. In connection with this judgment, the parties entered into a Settlement Agreement pursuant to which certain additional collateral was provided to the Company to secure the payment of the judgment amount.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information. The Company's Common Stock is quoted on the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") under the symbol "FCSC" since December 26, 1996 and "FCMC" from December 30,1994 until such date.

The following table sets forth the bid prices for the common stock on Nasdaq Bulletin Board, for the periods indicated trading during these periods was limited and sporadic. Therefore, the following quotes may not accurately reflect the true market value of the securities. Such prices reflect inter-dealer prices without retail markup or markdown or commissions and may not represent actual transactions. Information for 2000 and 1999 was compiled from information representing the daily inter-dealer bid activity during the period.

	2000 Bid		1999 Bid	
	High	Low	High	Low
First Quarter	$0.75	$ 0.55	$1.125	$0.75
Second Quarter	$0.75	$ 0.75	$ 1.75	$0.75
Third Quarter	$0.45	$0.375	$ 1.75	$0.55
Fourth Quarter	$0.50	$0.375	$ 1.00	$0.55

As of March 30, 2001, there were approximately 525 record holders of the Company's Common Stock.

Dividend Policy. The Company intends to retain any future earnings that may be generated from operations to help finance the operations and expansion of the Company and accordingly does not plan to pay cash dividends to holders of the Common Stock during the reasonably foreseeable future. Any decisions as to the future payment of dividends will depend on the earnings and financial position of the Company and such factors as the Company's Board of Directors deem relevant.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Forward-Looking Statements. When used in this report, press releases and elsewhere by the Company from time to time, the words "believes", "anticipates", and "expects" and similar expressions are intended to identify forward-looking statements that involve certain risks and uncertainties. Additionally, certain statements contained in this discussion and the Form 10-KSB, may be deemed forward-looking statements that involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially are the following: unanticipated changes in the U.S. economy, business conditions and interest rates and the level of growth in the finance and housing markets, the availability for purchases of additional loans, the status of relations between the Company and its Senior Debt Lender, the status of relations between the Company and its primary sources for loan purchases, unanticipated difficulties in collections under loans in the Company's portfolio and other risks detailed from time to time in the Company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date thereof. The Company undertakes no obligation to

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release publicly the results on any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Loan and OREO Acquisitions. During the year ended December 31, 2000 ("fiscal 2000") the Company purchased 2,907 loans consisting primarily of second mortgages, with an aggregate face value of $113 million at an aggregate purchase price of $96 million or 85% of the face value compared with the purchase during the year ended December 31, 1999 ("fiscal 1999") of 2,368 loans consisting primarily of second mortgages, with an aggregate face value of $96 million at an aggregate purchase price of $88 million or 92% of the face value. Acquisition of these portfolios was fully funded through Senior Debt in the amount equal to the purchase price plus a 1% loan origination fee.

The Company believes these acquisitions of high yielding coupon loans will result in substantial increases in the level of interest income during future periods. Payment streams are generated once the loans are incorporated into the Company's loan tracking system.

Management intends to continue to expand the Company's earning asset base through the acquisition of additional portfolios including performing and non-performing real estate secured loans. The Company believes that its current infrastructure is adequate to service additional loans without any material increases in expenses.

Cost of Funds. The increases in the prime rate during 2000, from 8.5% to 8.75%, and 9.00% in February and March respectively, increased the benchmark rate for the costs of funds on Senior Debt used to fund loan portfolio acquisitions. As of December 31, 2000, the Company had Senior

Debt outstanding under 94 loans with an aggregate principal balance of $231 million. References herein to the Company's Senior Debt Lender or lending arrangements refer to such lender. Additionally the Company has financing agreements, which had an outstanding balance of $2,021,334 at December 31, 2000.

The majority of the loans purchased by the Company bear interest at a fixed rate, while the Senior Debt is at a variable rate. Consequently, changes in market interest rate conditions have caused direct corresponding changes in interest expense. The Company and its Senior Debt Lender agreed to a fixed base rate on Senior Debt of 8.75% with a premium of between 0% and 2.00% over the fixed rate on all Senior Debt for the 12-month period April 1, 2000 through March 31, 2001. Increases, during this period in the prime rate did not negatively impact the net income of the Company. The weighted average interest rate on borrowed funds for the Senior Debt based on the balances as of December 31, 2000 and December 31, 1999 was 9.16% and 9.0%, respectively.

The impact of inflation on the Company's operations during both fiscal 2000 and 1999 was immaterial.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Total revenue, comprised of interest income, purchase discount earned, gains recognized on the bulk sale of notes, gain on sale of repossessed collateral, gain on sale of OREO, gain on sale of loans originated, rental income and other income, increased by $6,595,730 or 29%, to $29,047,390 during fiscal 2000, from $22,451,660 during fiscal 1999.

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Total revenue as a percentage of notes receivable in the Company's portfolio as of the last day of the fiscal year, net of allowance for loan losses and joint venture participation during fiscal 2000 was 12.6% as compared with 12.2% during fiscal 1999. Interest income on notes receivable increased by $5,383,891 or 35%, to $20,873,504 during fiscal 2000 from $15,489,613 during fiscal 1999. The Company recognizes interest income on notes included in its portfolio based upon three factors: (i) interest on performing notes, (ii) interest received with settlement payments on non-performing notes and (iii) the balance of settlements in excess of the carried face value. This increase resulted primarily from the purchase of $113 million of performing loans during 2000, which increased the size of the Company's outstanding portfolio of notes receivable by 24%. The increase in the growth in size of the Company's portfolio lagged behind the increase in interest income primarily due to prepayments and principal collections.

Purchase discount earned decreased by $480,309 or 11%, to $3,788,034 during fiscal 2000 from $4,268,343 during fiscal 1999. The decrease in purchase discount earned reflected a maturing of the Company's portfolio, the increased purchase price to purchase primarily performing loans, reserve increases, and foreclosures of loans in the Company's portfolio, which converts the purchase discount into potential gain or loss on sale of OREO when the property is sold. The Company believes that the aggregate sales proceeds on its OREO portfolio will exceed the lower of cost or market value at which it is recorded resulting in a gain on sale.

Gains from the bulk sale of loans increased by $1,055,499 or 170%, to $1,675,107 during fiscal 2000 from $619,608 during fiscal 1999. This increase reflected the sale of $8 million in performing loans purchased from a single source, which did not meet the Company's yield criteria and which sale generated a gain of approximately $800,000. The Company sold approximately $13.0 million in face value notes receivable during 2000 as compared to $5.0 million during 1999.

Gain on sale of originated notes by Tribeca increased by $120,741 or 77%, to $276,911 during 2000 from $156,170 during fiscal 1999. This increase is due to higher quality loans sold for a greater margin during 2000 as compared to 1999. Tribeca had loan sales of $5.3 million during 2000 as compared to $7.0 millions of loans during 1999.

Gain on sale of OREO increased by $388,939 or 125% to $700,939 during fiscal 2000 from $ 312,000 during fiscal 1999. The increase resulted from the appreciation in value in the Company's rental portfolio, as well as the increase in value in the real estate in our portfolio. The Company sold 90 OREO properties during 2000 as compared to 121 OREO properties during 1999.

Rental income decreased by $92,804 or 12% to $672,748 during fiscal 2000, from $765,552 during fiscal 1999. This decrease reflected a decrease in the number of OREO rental properties held at December 31, 2000 to 47 from 94 at December 31, 1999.

Other income increased by $219,774 or 26%, to $1,060,147 during fiscal 2000 from $840,374 during fiscal 1999. The increase was due primarily to increases in prepayment penalties and late charges resulting from the 24% growth in the size of the portfolio and increased loan fees from originations by Tribeca.

Total operating expenses increased by $6,156,915 or 28% to $28,476,727 during fiscal 2000 from $22,319,812 during fiscal 1999. Total operating expenses include interest expense, collection, general and administrative expenses, provisions for loan losses, service fees, amortization of loan commitment fees and depreciation expense.

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Interest expense increased by $4,969,386 or 36%, to $18,781,532 during fiscal 2000 from $13,812,146 during fiscal 2000. This increase resulted primarily from the increase in debt reflecting the Company's 25% increase of notes receivable. Total debt increased by $47 million or 25%, to $233 million as of December 31, 2000 as compared with $186 million as of December 31, 1999. Total debt includes Senior Debt, debentures, financing agreements and loans from affiliates.

Collection, general and administrative expenses increased by $816,807 or 11% to $8,514,742 during fiscal 2000 from $7,697,934 during fiscal 1999. The primary components of collection, general and administrative expense are personnel expense, OREO related expense, litigation expense, office expense, and collection expense.

Personnel expenses increased by $1,045,384 or 35%, to $4,028,669 during fiscal 2000 from $2,983,285 during fiscal 1999. This increase resulted from growth in the size of the Company's legal and servicing staff, changes in key upper-management positions along with increases in commission expense due to an increase in originations in Tribeca. OREO related expenses decreased by $4,371 to $1,262,506 during fiscal 2000 from $1,262,506 during fiscal 1999. Litigation expenses decreased by $390,303 or 36%, to $704,611 during fiscal 2000 from $1,094,914 during fiscal 1999. This decrease was due primarily to decreased expenses for corporate litigation (see Item 3. Legal Proceedings), and increased efforts to recover asset protection legal fees through legal settlement. Office expenses increased by $55,817 or 12%, to $ 531,631 during fiscal 2000 from $475,814 due to an increase in office space for Tribeca on the fifth floor of 6 Harrison Street. Other general and administrative expenses increased $110,280 or 6% to $1,987,324 during fiscal 2000 from $1,877,044 during fiscal 1999. This increase resulted primarily from increased travel for marketing, due diligence, increased audit and tax preparation fees due to the increase in the number of subsidiary companies.

Provisions for loan losses increased by $272,302 or 196%, to $411,005 during fiscal 2000 from $138,703 during fiscal 1999. This increase was primarily due to reserve increases and new REO's in portfolio's, which no longer have purchase discount left to be earned. Bad debt expense expressed as a percentage of face value of notes receivable as of the last day of such years for fiscal 2000 and fiscal 1999 were approximately 0.16% and 0.07%, respectively. Provisions for loan losses are incurred as soon as the valuation of the asset diminishes and there is no unamortized discount remaining associated with that asset.

Amortization of deferred financing costs increased by $94,827 or 18%, to $619,892 during fiscal 2000 from $525,065 during fiscal 1999. This increase resulted primarily from the growth in size of the portfolio, increased prepayments, collections, and an increase in the number and dollar amount of assets and sold, which sales generally accelerate the amortization of financing costs. On December 31, 2000 and December 31, 1999, deferred financing costs, as a percentage of Senior Debt outstanding was 1.05 % and 1.09%, respectively.

Depreciation expense increased by $3,592 or 2%, to $149,556 during fiscal 2000 from $145,964 during fiscal 1999. This increase resulted primarily from the construction of new Tribeca office space, and the purchase of computer equipment.

The Company's operating income increased by $438,815 to $570,663 during fiscal 2000 from $131,848 during fiscal 1999 for the reasons set forth above.

During 2000, and 1999 there was no provision for income taxes due to loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

General. During fiscal 2000 the Company purchased 2,907 loans with an aggregate face value of $113 million at an aggregate purchase price of $96 million or 85% of the face value. During fiscal 1999, the Company purchased 2,368 loans with an aggregate face value of $96 million at an aggregate purchase price of $88 million or 92% of face value. This increase reflected the Company's focus of acquiring high yielding coupon loans, and the increased activity to cultivate additional business.

Liquidity. The Company's portfolio of notes receivable at December 31, 2000, had a face value of $255 million and included net notes receivable of approximately $208 million. Net notes receivable are stated at the amount of unpaid principal, reduced by purchase discount and allowance for loan losses. The Company has the ability and intent to hold its notes until maturity, payoff or liquidation of collateral or sale if it is economically advantageous to do so.

During fiscal 2000, the Company used cash in the amount of $10.3 million in its operating activities primarily for interest expense, overhead, ordinary litigation expense incidental to its collections and for the foreclosure and improvement of OREO. The Company used $35.5 million in its investing activities, which reflected primarily the use of $95.7 million for the purchase of note receivable offset by principal collections of its notes receivable of $43.6 million and proceeds from sales of OREO of $7.5 million. Net cash provided by financing activities of $47 million was primarily from an increase in Senior Debt of $98 million. The above activities resulted in a net increase in cash at December 31, 2000 over December 31, 1999 of $1,196,779.

In the ordinary course of its business, the Company accelerates its foreclosures of real estate securing non-performing notes receivable included in its portfolio. As a result of such foreclosures and selective direct purchases of OREO, at December 31, 2000 and 1999, the Company held OREO recorded in the financial statements at $5.3 million and $7.7 million, respectively. OREO is recorded on the financial statements of the Company at the lower of cost or fair market value. The Company believes that the OREO inventory held at December 31, 2000 has a net realizable value (market value less estimated commissions and legal expenses associated with the disposition of the asset) of approximately $5.9 million based on market analyses of the individual properties less the estimated closing costs. The Company generally holds OREO as rental property or sells such OREO in the ordinary course of business when it is economically beneficial to do so.

Operating Expenses of Tribeca. During 2000, Tribeca incurred a reduced operating loss of $166,000. This loss stemmed from a lack of sufficient closing and loans sales to cover overhead cost. The Company funded the start-up of Tribeca with $1.1 million of proceeds from the refinancing of two loan portfolios through its Senior Debt Lender. Additionally, such lender has provided Tribeca with a warehouse financing agreement of $2 million. Tribeca began originating mortgages on September 1, 1997. There can be no assurances that Tribeca will earn a profit in the future, however, management believes that Tribeca's existing cash balances, credit lines, and anticipated cash flow from operations will provide sufficient working capital resources for Tribeca's anticipated operating needs. During the year Tribeca negotiated with it's Warehouse lender to allow Tribeca to roll its financing agreements into senior debt once the financing agreement balance hit a critical mass of $2 million dollars. This has allowed Tribeca to hold its loans longer and possibly maximize profits through bulk sales in the secondary market.

CASH FLOW FROM OPERATING AND INVESTING ACTIVITIES

Substantially all of the assets of the Company are invested in its portfolios of notes receivable. The Company's primary source of cash flow for operating and investing activities is collections on notes receivable and gains on sale notes and OREO properties.

At December 31, 2000, the Company had unrestricted cash, cash equivalents and marketable securities of $7.2 million. A portion of the Company's available funds may be applied to fund acquisitions of companies or assets of companies in complementary or related fields. Although the Company from time to time engages in discussions and negotiations, it currently has no agreements with respect to any particular acquisition. This may cause the Company to incur additional capital expenditures, outside the acquisitions of additional notes receivable.

CASH FLOW FROM FINANCING ACTIVITIES

Senior Debt. As of December 31, 2000, the Company owed an aggregate of $231 million to the Senior Debt Lender, under 94 loans.

The Senior Debt is collateralized by first liens on the respective loan portfolios for the purchase of which the debt was incurred and is guaranteed by the Company. The monthly payments on the Senior Debt have been, and the Company intends for such payments to continue to be, met by the collections from the respective loan portfolios. The loan agreements for the Senior Debt call for contractual interest and principal payments each month and accelerated payments based upon the collection of the notes receivable securing the debt during the preceding month. The Senior Debt accrues interest at a fixed rate of 8.75% with a premium of between 0% and 2.00% over the base rate. The accelerated payment provisions are generally of two types: the first requires that all collections from notes receivable, other than a fixed monthly allowance for servicing operations, be applied to reduce the Senior Debt, and the second requires a further amount to be applied toward additional principal reduction from available cash after scheduled principal and interest payments have been made. As a result of the accelerated payment provisions, the Company is repaying the amounts due on the Senior Debt at a rate faster than the contractual scheduled payments. While the Senior Debt remains outstanding, these accelerated payment provisions may limit the cash flow, which is available to the Company.

In February 2001, the Company negotiated with its Senior Debt Lender a modification to the Senior Debt obligation, pursuant to which the Senior Debt Lender has provided the Company with a cash advance of $825,000 per month for the year. Management believes that this modification may reduce irregular periods of cash flow shortages arising from operations. Management believes that sufficient cash flow from the collection of notes receivable will be available to repay the Company's secured obligations and that sufficient additional cash flows will exist, through collections of notes receivable, the bulk sale of performing loan portfolios, sales and rental of OREO, continued modifications to the secured debt credit agreements or additional borrowing, to repay the current liabilities arising from operations and to repay the long term indebtedness of the Company.

Certain of the Senior Debt credit agreements required establishment of restricted cash accounts, funded by an initial deposit at the loan closing and additional deposits based upon monthly collections up to a specified dollar limit. The restricted cash is maintained in an interest bearing account, with the Company's Senior Debt Lender. Restricted cash may be accessed by the Senior Debt Lender only upon the Company's failure to meet the contractual monthly payment due if collections from notes receivable securing the loan are insufficient to satisfy the installment due. Historically, the Company has not called

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upon these reserves. The aggregate balance of restricted cash in such accounts was $932,574 on December 31, 2000 and $387,972 on December 31, 1999. The increase in restricted cash at December 31, 2000 was due to cash deposits returned to restricted cash during 2000 that were previously used in December 1999 as deposits on portfolio bids.

Total Senior Debt funding capacity was $250 million at March 29, 2001 of which approximately $231 million had been drawn down as of such date. Additionally the Senior Debt Lender has verbally informed the Company that it will not deem approximately $4 million of Senior Debt that it had syndicated to other banks as of such date as outstanding for purposes of determining availability under the Senior Debt Facility. As a result, the Company has approximately $23 million available to purchase additional portfolios of notes receivable.

In April 2000, the Company's Senior Debt agreement was amended to provide that the interest rate on Senior Debt incurred to finance portfolio acquisitions between after April 1,2000 and March 31, 2001 will be 8.75%. At December 31, 2000, the weighted average interest rate on Senior Debt was 9.16%.

The Company's Senior Debt Lender has provided Tribeca with a warehouse financing agreement of $2 million. At December 31, 2000, Tribeca had drawn down $1.8 million on the line.

Harrison First Corporation 12% Debentures. In connection with the acquisition of a loan portfolio during 1995, the Company offered to investors $800,000 of subordinated debentures of which $555,000 were issued. As of December 31, 2000 and 1999, $72,525 and $332,976, respectively, of these debentures were outstanding. The Harrison 1st 12% Debentures bear interest at the rate of 12% per annum and were payable in quarterly installments. The principal was repaid over three years in ten equal quarterly installments of $22,200 which payments commenced on September 30, 1997 with the remaining balloon payment of $333,000 due June 30, 2000. On June 30, 2000 the Company made a balloon payment of $232,952 funded (through the incurrence of Senior Debt) and agreed with the holders of $97,048 of 12% Debentures to the extension of payment of such principal amount to December 31, 2001. The Harrison 1st 12% Debentures are secured by a lien on the Company's interest in certain notes receivable and are subordinated to the Senior Debt encumbering the loan portfolio.

Financing Agreement. The Company has a financing agreement with the Senior Debt Lender permitting it to borrow a maximum of approximately $1,500,000 at a rate equal to the bank's prime rate plus two percent per annum. Principal repayment of the line is due six months from the date of each cash advance and interest is payable monthly. The total amounts outstanding under the financing agreement as of December 31, 2000 and December 31, 1999, were $117,600 and $615,720 respectively. Advances made under the financing agreement were used to satisfy senior lien positions and fund capital improvements on certain real estate assets owned by the Company. Management believes the ultimate sale of these properties will satisfy the related outstanding financing agreement. Management has reached an agreement in principal with its Senior Debt Lender to increase the availability under this credit facility to cover additional properties foreclosed upon by the Company, which the Company may be required to hold as rental property to maximize its return.

ITEM 7. FINANCIAL STATEMENTS

See the financial statements and notes related thereto, beginning on page F-1, included elsewhere in this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

INFORMATION WITH RESPECT TO ITEMS 9, 10, 11, 12 AND ON FORM 10KSB IS SET FORTH

IN THE DEFINITIVE PROXY STATEMENT, WHICH WILL BE FILED WITHIN 120 DAYS OF DECEMBER 31, 2000, THE COMPANY'S MOST RECENT FISCAL YEAR. SUCH INFORMATION IS INCORPORATED HEREIN BY REFERENCE.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF EXCHANGE ACT

ITEM 10. EXECUTIVE COMPENSATION

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

PART IV

(a) EXHIBIT TABLE

EXHIBIT NO.	DESCRIPTION
3(a)	Restated Certificate of Incorporation. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on December 31, 1994.
(b)	Bylaws of the Company. Previously filed with, and incorporated herein by reference to, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
4(a)	15% Convertible Subordinate Debentures. Previously filed with, and incorporated herein by reference to, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
(b)	Warrants associated with principal repayment of the 15% Convertible Subordinated Debentures. Previously filed with, and incorporated herein by reference to, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
10(d)	Employment Agreement dated December 4, 1996, between the Company and Joseph Caiazzo. Previously filed with, and incorporated herein by reference to, the Company 10KSB, filed with the Commission on March 31,1997.
10(e)	Agreement dated March 29, 1997 between the Company and the Citizens Banking Company. Filed with the Commission. Previously filed with, and incorporated herein by reference to, the Company 10QSB, filed with the Commission on May 15,1997.
10(f)	Loan and Real Estate Purchase Agreement dated September

	17,1998 by and among Franklin credit Management Corporation and Home Gold Financial Inc. f/k/a Emergent Mortgage Corp. Previously filed with, and incorporated herein by reference to, the Company's 8-K, filed with the Commission on November 23, 1998.
10(g)	Form of Subscription Agreement and Investor Representation, dated as of September 8,1998 between the Company and certain subscribers. Filed with the Commission. Previously filed with, and incorporated herein by reference to, the Company's 8-K, filed with the Commission on November 23, 1998.
10(h)	Loan Purchase Agreement dated December 31,1998 between the Company and Thomas Axon, corporate General Partner. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on April 14, 1999.
10(i)	Promissory Note between Thomas J. Axon and the Company dated December 31,1998. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on April 14, 1999.
10(j)	Promissory Note between Steve Leftkowitz, board member, and the Company dated March 31,1999. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on March 30, 2000.
10(k)	Loan Purchase Agreement dated March 31,1999 between the Company and Steve Leftkowitz, board member. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on March 30, 2000.
10(l)	Employment Agreement dated July 17, 2000 between the Company and Seth Cohen. Filed herewith.
11	Earnings per Share. Filed herewith.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 30, 2001 FRANKLIN CREDIT MANAGEMENT CORPORATION

By: THOMAS J. AXON

Thomas J. Axon
Chairman

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
SETH COHEN Seth Cohen (Principal executive officer)	President, Chief Executive Officer	March 30, 200
JOSEPH CAIAZZO Joseph Caiazzo (Secretary)	Executive Vice President, Chief Operating Officer, Secretary and Director	March 30, 200
KIMBERLEY SHAW Kimberley Shaw	Vice President, Chief Financial Officer (Principal financial and accounting officer)	March 30, 200

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Franklin Credit Management Corporation and Subsidiaries

We have audited the consolidated balance sheets of Franklin Credit Management Corp. and Subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 23, 2001

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

ASSETS	2000	1999
CASH AND CASH EQUIVALENTS	$ 7,212,346	$ 6,015,
RESTRICTED CASH	932,574	387,
NOTES RECEIVABLE:		
Principal	255,055,677	206,262,
Purchase discount	(23,392,400)	(18,449,
Allowance for loan losses	(24,086,322)	(22,185,
Net notes receivable	207,576,955	165,627,
LOANS HELD FOR SALE	8,670,691	3,288,
ACCRUED INTEREST RECEIVABLE	3,396,405	2,425,
OTHER REAL ESTATE OWNED	5,290,053	7,699,
OTHER RECEIVABLES	1,934,443	2,827,
DEFERRED TAX ASSET	3,481,002	3,408,
OTHER ASSETS	1,442,687	1,155,
BUILDING, FURNITURE AND FIXTURES - Net	868,471	884,
DEFERRED FINANCING COSTS- Net	2,429,661	2,016,

TOTAL ASSETS	$ 243,235,288	$ 195,737,
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	$ 2,932,611	$ 3,098,
Financing agreements	2,021,334	791,
Notes payable	231,050,485	185,019,
203(k) rehabilitation escrows payable	2,186	18,
Subordinated debentures	72,525	332,
Notes payable, affiliates and stockholders	146,835	109,
Deferred tax liability	3,561,061	3,488,
Total liabilities	239,787,037	192,859,
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 10,000,000 authorized shares; issued and outstanding: 5,916,527	59,167	59,
Additional paid-in capital	6,985,968	6,985,
Accumulated deficit	(3,596,884)	(4,167,
Total stockholders' equity	3,448,251	2,877,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 243,235,288	$ 195,737,

See notes to consolidated financial statements.

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
REVENUES:		
Interest income	$20,873,504	$15,489,613
Purchase discount earned	3,788,034	4,268,343
Gain on sale of notes receivable	1,675,107	619,608
Gain on sale of notes originated	276,911	156,170
Gain on sale of other real estate owned	700,939	312,000
Rental income	672,748	765,552
Other	1,060,147	840,374
	29,047,390	22,451,660

OPERATING EXPENSES:		
Interest expense	18,781,532	13,812,146
Collection, general and administrative	8,514,742	7,697,934
Provision for loan losses	411,005	138,703
Amortization of deferred financing costs	619,892	525,065
Depreciation	149,556	145,964
	28,476,727	22,319,812
NET INCOME	$ 570,663	$ 131,848
NET INCOME PER COMMON SHARE:		
Basic	$ 0.10	$ 0.02
Dilutive	$ 0.10	$ 0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	5,916,527	5,916,527

See notes to consolidated financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2000 AND 1999

	COMMON STOCK		PAID-IN	ADDITIONAL ACCUMULATED	
	SHARES	AMOUNT	CAPITAL	DEFICIT	
BALANCE, JANUARY 1, 1999	5,916,527	$ 59,167	$6,985,968	$(4,299,395)	$2
Net Income				131,848	
BALANCE, DECEMBER 31, 1999	5,916,527	59,167	6,985,968	(4,167,547)	2
Net Income				570,663	
BALANCE, DECEMBER 31, 2000	5,916,527	$ 59,167	$6,985,968	$(3,596,884)	$3

See notes to consolidated financial statements.

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 570,663	$
Adjustments to reconcile income (loss) to net cash used in operating activities:		
Gain on sale of notes receivable	(1,675,107)	
Gain on sale of other real estate owned	(700,939)	
Depreciation	149,556	
Amortization of deferred financing costs	619,892	
Purchase discount earned	(3,788,034)	
Provision for loan losses	411,005	
Changes in assets and liabilities:		
(Increase) in accrued interest receivable	(971,047)	
Decrease (increase) in other receivables	892,858	
(Increase) decrease in other assets	(287,590)	
(Increase) decrease in loans held for sale	(5,382,123)	
(Increase) decrease in accounts payable and accrued expenses	(166,037)	
Increase (decrease) in notes payable, affiliates and stockholders	37,485	
(Decrease) in 203(k) rehabilitation escrows payable	(16,505)	
Net cash used in operating activities	(10,305,923)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	(544,602)	
Purchase of notes receivable	(95,738,251)	
Principal collections on notes receivable	43,610,229	
Joint venture participation	--	
Acquisition and loan fees	(1,405,446)	
Foreclosures on real estate	(4,776,609)	
Reclassification of notes receivable for foreclosures	4,993,298	
Proceeds from sale of other real estate owned	7,522,394	
Proceeds from sale of notes receivable	10,974,326	
Purchase of building, furniture and fixtures	(133,125)	
Net cash used in investing activities	(35,497,786)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	98,024,623	
Principal payments of notes payable	(51,993,943)	
Proceeds from financing agreements	8,296,532	
Payments on financing agreements	(7,066,273)	
Principal payments of subordinated debentures	(260,451)	
Net cash provided by financing activities	47,000,488	
NET INCREASE IN CASH	1,196,779	
CASH, BEGINNING OF YEAR	6,015,567	

CASH, END OF YEAR	$ 7,212,346	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for interest	$ 18,116,762	$
Cash payments (receipts) for taxes	$ 43,584	$

See notes to consolidated financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000 AND 1999

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Franklin Credit Management Corporation (the "Company"), incorporated under the laws of the State of Delaware, acquires performing, nonperforming, nonconforming and subperforming notes receivable and promissory notes from financial institutions, and mortgage and finance companies. The Company services and collects such notes receivable through enforcement of terms of original note, modification of original note terms and, if necessary, liquidation of the underlying collateral.

In January 1997, a wholly owned subsidiary was formed, to originate or purchase, sub prime residential mortgage loans to individuals whose credit histories, income and other factors cause them to be classified as nonconforming borrowers.

A summary of the Company's significant accounting policies follows.

BASIS OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include all cash accounts, with the exception of restricted cash, and money market funds. The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

NOTES RECEIVABLE AND INCOME RECOGNITION - The notes receivable portfolio consists primarily of secured real estate mortgage loans purchased from financial institutions, and mortgage and finance companies. Such notes receivable are generally nonperforming or underperforming at the time of purchase and, accordingly, are usually purchased at a discount from the principal balance remaining.

Notes receivable are stated at the amount of unpaid principal, reduced by purchase discount and an allowance for loan losses. The Company has the ability and intent to hold its notes until maturity, payoff or liquidation of collateral. Impaired notes are measured based on the present value of expected future cash flows discounted at the note's effective interest rate or, as a practical expedient, at the observable market price of the note receivable or the fair value of the collateral if the note is collateral dependent. A note receivable is impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the note agreement.

In general, interest on the notes receivable is calculated based on contractual interest rates applied to daily balances of the collectible principal amount outstanding using the simple-interest method.

Accrual of interest on notes receivable, including impaired notes receivable, is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining interest and principal. A nonaccrual note is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and past due interest is recognized at that time.

Loan purchase discount is amortized to income using the interest method over the period to maturity. The interest method recognizes income by applying the effective yield on the net investment in the loans to the projected cash flows of the loans. Discounts are amortized if the projected payments are probable of collection and the timing of such collections is reasonably estimable. The projection of cash flows for purposes of amortizing purchase loan discount is a material estimate, which could change significantly, in the near term. Changes in the projected payments are accounted for as a change in estimate and the periodic amortization is prospectively adjusted over the remaining life of the loans. Should projected payments not exceed the carrying value of the loan, the periodic amortization is suspended and either the loan is written down or an allowance for uncollectibility is recognized.

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses, a material estimate which could change significantly in the near-term, is initially established by an allocation of the purchase loan discount based on the management's assessment of the portion of purchase discount that represents uncollectable principal. Subsequently, increases to the allowance are made through a provision for loan losses charged to expense and the allowance is maintained at a level that management considers adequate to absorb potential losses in the loan portfolio.

Management's judgment in determining the adequacy of the allowance is based on the evaluation of individual loans within the portfolios, the known and inherent risk characteristics and size of the note receivable portfolio, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience and other relevant factors. Notes receivable, including impaired notes receivable, are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely based on a note-by-note review. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, when considered necessary.

The Company's real estate notes receivable are collateralized by real estate located throughout the United States with a concentration in the Northeast. Accordingly, the collateral value of a substantial portion of the Company's real estate notes receivable and real estate acquired through foreclosure is susceptible to changes in market conditions.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on notes receivable, future additions to the allowance or write-downs may be necessary based on changes in economic conditions.

OTHER REAL ESTATE OWNED - Other real estate owned consisting of properties acquired through, or in lieu of, foreclosure or other proceedings are held for sale and are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value, less cost to sell, at the time of acquisition is charged to the allowance for loan losses. Subsequent write-downs are charged to operations based upon management's continuing assessment of the fair value of the underlying collateral. Property is evaluated regularly to ensure that the recorded amount is supported by current fair values and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost to dispose. Revenue and expenses from the operation of other real estate owned and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

BUILDING, FURNITURE AND FIXTURES - Building, furniture and fixtures are recorded at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred.

DEFERRED FINANCING COSTS - Debt financing costs, which include loan origination fees incurred by the Company in connection with obtaining financing, are deferred and are amortized based on the principal reduction of the related loan.

MORTGAGE SERVICING RIGHTS - The Company allocates the total cost of the mortgage loans purchased or originated, proportionately, to the mortgage servicing rights and the loans based on the relative fair value. The servicing rights capitalized are amortized in proportion to and over the period of, estimated net servicing income including prepayment assumptions based upon the characteristics of the underlying loans. Capitalized servicing rights are periodically assessed for impairment based on the fair value of the rights with any impairment recognized through a valuation allowance.

RETIREMENT PLAN - The Company has a defined contribution retirement plan (the "Plan") covering all full-time employees who have completed one month of service. Contributions to the Plan are made in the form of payroll deductions based on employees' pretax wages. Currently, the Company offers a company match of 50% of the first 3% of the employees' contribution.

INCOME TAXES - The Company recognizes income taxes under an asset and liability method. Under this method, deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the financial statement carrying amounts of existing assets and liabilities and their respective basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that, some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment.

FAIR VALUE OF FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected

by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

a. CASH, RESTRICTED CASH, ACCRUED INTEREST RECEIVABLE, OTHER RECEIVABLE AND ACCRUED INTEREST PAYABLE - The carrying values reported in the balance sheet are a reasonable estimate of fair value.

b. NOTES RECEIVABLE - Fair value of the net note receivable portfolio is estimated by discounting the future cash flows using the interest method. The carrying amounts of the notes receivable approximate fair value.

c. SHORT-TERM BORROWINGS - The carrying amounts of the financing agreement and other short-term borrowings approximate their fair value.

d. LONG-TERM DEBT - Fair value of the Company's long-term debt (including notes payable, subordinated debentures and notes payable, affiliate) is estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts reported in the balance sheet approximate their fair value.

COMPREHENSIVE INCOME - SFAS No. 130, Reporting Comprehensive Income defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to stockholders. The Company had no items of other comprehensive income in 2000 and 1999, therefore net income (loss) was the same as its comprehensive income (loss).

RECENT PRONOUNCEMENTS - Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

2. NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Notes receivable consists principally of real estate mortgage as of December 31, 2000 and 1999 and are classified as follows:

	2000	1999
Real estate secured	$ 239,860,880	$ 183,501,093
Consumer unsecured	7,171,016	9,463,179
Mobile homes	5,601,175	11,327,459
Other	2,422,606	1,970,920
	255,055,677	206,262,651
Less:		
Purchase discount	(23,392,400)	(18,449,141)
Allowance for loan losses	(24,086,322)	(22,185,945)
	$ 207,576,955	$ 165,627,565

As of December 31, 2000, contractual maturities of classified notes receivables net of the allowance for loan losses were as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
2001	$ 37,323,641
2002	33,239,010
2003	29,651,223
2004	16,835,220
2005	14,049,329
Thereafter	82,971,875

	$214,070,298
	============

Excluded from the contractual maturities reflected above are the notes receivable acquired during the last two weeks of 2000 with $23,400,000 of aggregate principal balances, net of allowance for loan losses. Management is in the process of performing the analyses to determine the final discount allocation and the initial determination of the allowance for loan losses associated with these purchases that are necessary to develop the related contractual maturities of the underlying notes receivable.

It is the Company's experience that a portion of the notes receivable portfolio may be renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections. During the years ended December 31, 2000 and 1999, cash collections of principal amounts totaled approximately $43,600,000 and $36,950,000, respectively, and the ratios of these cash collections to average principal balances were approximately 18.8% and 19.5%, respectively.

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Changes in the allowance of loan losses for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Balance, beginning	$ 22,185,945	$ 22,168,345
Initial allowance allocated on purchased portfolio	2,264,703	1,929,165
Loans charged to allowance	(775,331)	(2,050,268)
Provision for loan losses	411,005	138,703
	------------	------------
Balance, ending	$ 24,086,322	$ 22,185,945
	============	============

At December 31, 2000 and 1999, principal amounts of notes receivable included approximately $56,000,000 and $60,000,000, respectively, of notes for which there was no accrual of interest income. At December 31, 2000, approximately $23,400,000 of such notes at principal amounts relates to recent portfolio acquisitions whose performance and collection classification by management was in the process of being determined.

The following information relates to impaired notes receivable which include all nonaccrual loans as of and for the year ended December 31, 2000 and 1999:

	2000	1999
Total impaired notes receivable	$56,069,711	$60,383,787
	===========	===========
Allowance for loan losses related to impaired notes receivable	$20,117,598	$19,225,925
	===========	===========
Average balance of impaired notes receivable		

during the year	$56,997,519	$59,496,713
Interest income recognized	$ 1,801,068	$ 1,502,136

In the normal course of business, the Company restructures or modifies terms of notes receivable to enhance the collectibility of certain notes that were impaired at the date of acquisition and were included in certain portfolio purchases.

3. BUILDING, FURNITURE AND FIXTURES

At December 31, 2000 and 1999, building and improvements, and furniture and equipment consisted of the following:

	2000	1999
Building and improvements	$ 907,890	$ 874,238
Furniture and equipment	603,336	503,864
	1,511,226	1,378,102
Less accumulated depreciation	642,755	493,199
	$ 868,471	$ 884,903

4. NOTES PAYABLE

Notes payable consists primarily of loans made to the Company from a bank ("Senior Debt Lender") to acquire portfolios of notes receivable. The Company has a credit facility with the Senior Debt Lender. The facility provides the Company with the ability to borrow up to an aggregate of $250,000,000 at rates ranging from prime to prime plus 2.00% per annum. As a result, the Company has approximately $23 million available to purchase additional portfolios of notes receivable. All notes payable are secured by a security interest in the notes receivable, payments to be received under the notes and the underlying collateral securing the notes. As of December 31, 2000 and 1999, the Company had 94 and 73 loans outstanding to its Senior Debt Lender with an aggregate principal balance of $230,760,549 and $184,713,345, respectively. The loans accrue interest at various interest rates. The principal balances and interest rates are as follows:

		2000
8.75% Fixed 2000 and Prime 1999	(2000: 8.75% and 1999: 8.50%)	$ 121,054,427
0.50% over fixed and over prime	(2000: 9.00% and 1999: 9.00%)	2,426,260
1.00% over fixed and prime	(2000: 9.75% and 1999: 9.50%)	83,561,379
1.75% over fixed and prime	(2000: 10.50% and 1999: 10.25%)	23,153,762
2.00% over fixed and prime	(2000: 10.75% and 1999:10.50%)	564,721
		$ 230,760,549

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The above financing agreements also provide for additional monthly principal reduction based on cash collections received by the Company.

The remaining note payable consists of a bank loan made to the Company to acquire its principal offices. The note payable is secured by the principal offices. As of December 31, 2000 and 1999, the Company had a note payable of $289,937 and $306,461, respectively, which accrues interest at 8.93%.

Certain agreements require that a non-interest bearing cash account be established at the closing of the loan and may require additional deposits based on a percentage of monthly collections up to a specified dollar limit. The aggregate balance of restricted cash at December 31, 2000 and 1999 was $932,574 and $387,972, respectively.

Substantially all of the Company's outstanding financing with respect to its notes receivable portfolio acquisition activities is provided by the Senior Debt Lender.

Aggregate maturities of all long-term debt at currently effective principal payment requirements, including subordinated debentures (Note 6), financing agreements (Note 8) and notes payable, affiliates and stockholders (Note 7), at December 31, 2000 are as follows:

YEAR ENDING DECEMBER 31,	NOTES PAYABLE	SUBORDINATED DEBENTURES	FINANCING AGREEMENTS	NOTES PAYABLE, AFFILIATE
2001	$ 15,975,595	$ 72,525	$ 2,021,334	$ 146,835
2002	16,172,125	-	-	-
2003	75,501,551	-	-	-
2004	76,257,417	-	-	-
2005	28,542,539	-	-	-
Thereafter	18,601,258	-	-	-
	$ 231,050,485	$ 72,525	$ 2,021,334	$ 146,835

5. CONVERTIBLE SUBORDINATED DEBENTURES AND WARRANTS

During 1993, the Company issued $2,000,000 of 15% convertible subordinated debentures and, during 1995, the Company fully repaid the remaining outstanding obligation of $526,600. The debentures were convertible into common stock of the Company at the rate of $2.00 per share. Warrants, exercisable to the extent that conversion rights have not been exercised, to purchase common stock at the rate of $2.00 per share, were issued on principal repayment dates and were due to expire one year thereafter. In December 1997, the Company extended the warrants provision, due to expire on December 31, 1997, through December 31, 1998. These warrants expired during 1999.

6. SUBORDINATED DEBENTURES

In connection with the acquisition of a notes receivable portfolio during 1995, the Company offered $800,000 in subordinated debentures. The debentures bear interest at a rate of 12% per annum payable in quarterly installments. The principal was payable over 3 years in 10 equal quarterly installments of $22,200 commencing September 30, 1997 with the remaining balance of $310,800 payable on June 30, 2000. On June 30, 2000, the Company made a balloon payment of $232,952 funded (through the incurrence of senior debt) and agreed with the holder of $97,048 of 12% debentures to the extension of payment of such principal amount to December 31, 2001, at December 31, 2000 $72,525 of the extended debenture remains payable.

The debentures are secured by a lien on the Company's interest in certain notes receivable and are subordinate to a note payable with a December 31, 2000 balance of $3,141,276 encumbering the notes receivable portfolio.

7. NOTES PAYABLE, AFFILIATES AND STOCKHOLDERS

Notes payable, affiliates and stockholders consist of the following at December 31, 2000 and 1999:

	2000	1999
Note payable to a company affiliated through certain common ownership due on demand, with interest payable monthly at a rate of 8.5% per annum	$ 8,772	$109,350
Note payable to a company affiliated through certain common ownership due on demand, with interest payable monthly at a rate of 8.5% per annum	138,063	--
	$146,835	$109,350

8. FINANCING AGREEMENTS

The Company has a financing agreement with a bank. The agreement provides the Company with the ability to borrow a maximum of $1,500,000 at a rate equal to the bank's prime rate plus two percent per annum. The credit facility is to be utilized through a series of loans made to purchase the underlying collateral of certain nonperforming real estate secured loans. Principal repayment of each resulting loan is due six months from the date of each advance and interest is payable monthly. As of December 31, 2000 and 1999, $117,600 and $615,721, respectively, are outstanding on this credit facility.

The financing agreement is secured by a first priority security interest in the notes receivable, the individual real estate that may be purchased, payments to be received under the notes receivable, an unconditional suretyship by one of the stockholders of the Company, and collateral securing the notes of certain loan portfolios.

Further, in 1998, the Company opened a financing agreement with a bank.

The agreement provides the Company with the ability to borrow a maximum of $150,000 at a rate equal to the bank's prime rate plus one percent per annum. As of December 31, 2000, and 1999, $127,014 and $136,134, respectively, are outstanding on the financing agreement.

The Company also has a warehouse financing agreement with another bank. It provides the Company with the ability to borrow a maximum of $2,000,000 at a rate equal to the bank's prime rate plus 2.00%. This credit facility is to be utilized for the purpose of originating mortgage loans. As of December 31, 2000 and 1999, $1,776,720 and $39,220, respectively, are outstanding on the financing agreement.

9. INCOME TAX MATTERS

The components of income tax provision (benefit) for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Current provision:		
Federal	$ --	$ --
State and local	--	--
	--	--
Deferred provision (benefit):		
Federal	216,899	--
State and local	68,480	--
	285,379	
Valuation allowance	(285,379)	--
Provision (benefit)	$ --	$ --

A reconciliation of the anticipated income tax expense (computed by applying the Federal statutory income tax rate of 35% to income before income tax expense) to the provision for income taxes in the statements of income for the years ended December 31, 2000 and 1999 follows:

	2000	1999
Tax (benefit) determined by applying U.S. statutory rate to income (loss)	$ 194,025	$ 46,147
Increase (decrease) in taxes resulting from:		
State and local income taxes, net of Federal benefit	68,480	11,741
Meals and Entertainment (net of adjustments)	22,874	(4,736)
Valuation allowance	(285,379)	(51,017)
Other items, net	--	(2,135)

	$ --	$ --

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A valuation allowance has been established for a portion of the deferred tax asset because management could not assert that it is more likely than not that, the total benefit of the deferred tax asset will be realized. The tax effects of temporary differences that give rise to significant components of deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below:

	2000	1999
Deferred liabilities:		
Purchase discount	$ 3,561,061	$ 3,488,96
Joint venture participation	--	-
Gross deferred tax liabilities	$ 3,561,061	$ 3,488,96
Deferred tax assets:		
Inventory, repossessed collateral	$ 84,881	$ 402,26
Special charge on purchased loans	598,205	649,84
Net operating loss carryforward	2,643,234	3,632,29
Bad Debt Reserve	1,195,104	1,249,42
Gross deferred tax assets	4,521,424	5,933,83
Less valuation allowance	(1,040,422)	(2,524,92
Deferred tax assets - net of valuation allowance	$ 3,481,002	$ 3,408,90

The Company has net operating loss carryforwards of approximately $5,623,902 for Federal income tax purposes, available to reduce future taxable income. Such net operating loss carryforwards begin to expire in 2001.

10. STOCK OPTION PLAN

During 1996, the Company adopted an incentive stock option plan (the "Plan") for certain of its officers and directors. Under the terms of the Plan, options to purchase an aggregate of up to 800,000 shares of the Company's common stock may be granted. Each option has an exercise price at least equal to the fair market value of the shares of common stock at the time the option is granted. Options become exercisable at various times after the date granted and expire ten years after the date granted.

During 1999, the Company granted 25,000 options to the Vice President of

Loan Administration. During 2000, the Company granted 532,500 options to six members of the Company's Board of Directors and 532,500 options to various management employees within the Company. Also during 2000, 140,000 options were forfeited by the Company's prior Chief Financial Officer.

The Company applies APB Opinion 25 and related interpretations in accounting for stock options; accordingly, no compensation cost has been recognized. Had compensation cost been determined upon the fair value of the stock options at the grant date consistent with the method of FAS 123, the Company's 2000 and 1999 net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated in the table that follows. The following pro forma effect on net income (loss) 2000 and 1999 is not representative of the pro forma effect on net income (loss) in future years

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because it does not take into consideration pro forma compensation expense related to grants made prior to 1997.

	2000	1999
Net income (loss) - as reported	$ 570,663	$ 131,848
Net income (loss) - proforma	426,847	120,028
Net income (loss) per common share - basic - as reported	0.10	0.02
Net income (loss) per common share - basic - pro forma	0.07	0.01
Net income (loss) per common share - dilutive - as reported	0.10	0.02
Net income (loss) per common share - dilutive - pro forma	0.07	0.01

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2000:

Dividend yield	0 %
Volatility	241 %
Risk-free interest rate	3.62
Weighted average expected lives	3 years

Transactions in stock options under the Plan are summarized as follows:

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	SHARES	WEIGHTED AVERAGE EXERCISE PRICE

Options outstanding at January 1, 1999	306,000	$1.56
Granted	25,000	$1.56
Exercised	--	--
Expired	(11,000)	--
Options outstanding at December 31, 1999	320,000	$1.56
Granted	532,500	$0.75
Exercised	--	--
Forfeitured	(140,000)	$1.56
Expired	--	--
Options outstanding at December 31, 2000	712,500	$1.00

As of December 31, 2000 and 1999, 712,500 and 320,000 options are exercisable.

11. SALE OF NOTES RECEIVABLE WITH RECOURSE

In June 1996, the Company sold notes receivable with a net carrying value of approximately $5,400,000 for approximately $6,400,000 to the Company's primary lender and retained the servicing rights. Such loans were sold with recourse. The recourse provision amounted to approximately $600,000 and provides that the Company either buy back or replace a note with a note that is approximately equivalent to the outstanding principal and accrued interest should the note receivable become sixty days past due. At December 31, 2000 and 1999, the remaining obligation under the recourse provision is approximately $425,000. In addition, the buyer of the notes has the right to proceed to foreclose on the delinquent note and, after sale of the collateral, require the Company to pay any deficiency balance on the note.

In June 1997, the Company sold notes receivable with a net carrying value of approximately $3,900,000 for approximately $4,900,000 to the Company's primary lender and retained the servicing rights. Such loans were sold with recourse. The recourse provision amounted to approximately $500,000 and provides that the Company either buy back or replace a note with a note that is approximately equivalent to the outstanding principal and accrued interest should the note receivable become sixty days past due. At December 31, 2000 and 1999, the remaining obligation under the recourse provision was approximately $48,183 and $262,000, respectively. In addition, the buyer of the notes has the right to proceed to foreclose on the delinquent note and, after sale of the collateral, require the Company to pay any deficiency balance on the note. The Company recognized a gain of approximately $920,000 on this sale.

As of December 31, 2000 and 1999, unpaid balances of mortgage loans serviced for others were $3,580,347 and $5,175,000, respectively. Mortgage loans serviced for others are not included in the Company's consolidated balance sheet.

12. BUSINESS SEGMENTS

The Company has two reportable operating segments: (i) portfolio asset acquisition and resolution; and (ii) mortgage banking. The portfolio asset acquisition and resolution segment acquires performing, nonperforming, nonconforming and subperforming notes receivable and promissory notes from financial institutions, mortgage and finance companies, and services and collects such notes receivable through enforcement of terms of original note, modification of original note terms and, if necessary, liquidation of the underlying collateral. The mortgage-banking segment originates or purchases, sub prime residential mortgage loans for individuals whose credit histories, income and other factors cause them to be classified as nonconforming borrowers.

The Company's management evaluates the performance of each segment based on profit or loss from operations before unusual and extraordinary items and income taxes. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1).

PORTFOLIO ASSET ACQUISITION AND RESOLUTION

	2000	1999
REVENUES:		
Interest income	$20,292,305	$15,163,658
Purchase discount earned	3,788,034	4,268,343
Gain on sale of notes receivable	1,675,107	619,608
Gain on sale of other real estate owned	700,939	312,000
Rental income	672,748	765,552
Other	1,039,037	828,585
	28,168,170	21,957,746
OPERATING EXPENSES:		
Interest expense	18,489,548	13,519,865
Collection, general and administrative	7,859,020	7,108,484
Provision for loan losses	370,674	113,191
Amortization of deferred financing costs	593,624	496,182
Depreciation	118,901	96,597
	27,431,767	21,334,319
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND NET INCOME (LOSS)	$ 736,403	$ 623,427

MORTGAGE BANKING

	2000	1999
REVENUES:		
Interest income	$ 581,199	$ 325,955
Gain on sale of notes originated	276,911	156,170
Other	21,110	11,789
	879,220	493,914
OPERATING EXPENSES:		
Interest expense	291,984	292,281
Collection, general and administrative	655,722	589,450
Provision for Loan Loss	40,331	25,512
Amortization of deferred financing costs	26,268	28,883
Depreciation	30,655	49,367
	1,044,960	985,493
LOSS BEFORE PROVISION FOR INCOME TAXES AND NET LOSS	$ (165,740)	$ (491,579)
CONSOLIDATED ASSETS:		
Portfolio asset acquisition and resolution assets	$ 233,728,060	$ 192,140,894
Mortgage banking assets - Tribeca	9,507,228	3,596,202
Consolidated assets	$ 243,235,288	$ 195,737,096
TOTAL ADDITIONS TO BULIDING, FURNITURE AND FIXTURES:		
Portfolio asset acquisition and resolution assets	$ 68,419	$ 257,738
Mortgage banking assets	64,706	21,617
Consolidated additions to building, furniture and fixtures	$ 133,125	$ 279,355
CONSOLIDATED REVENUE:		
Portfolio asset acquisition and resolution assets	$ 28,168,170	$ 21,957,746
Mortgage banking assets	879,220	493,914
Consolidated Revenue	$ 29,047,390	$ 22,451,660
CONSOLIDATED NET INCOME (LOSS):		
Portfolio asset acquisition and resolution asset	$ 736,403	$ 623,427
Mortgage banking assets	(165,740)	(491,579)
Consolidated Net Income (Loss)	$ 570,663	$ 131,848

13. CERTAIN CONCENTRATIONS

Geographic Concentrations of Notes Receivable - Approximately 25% of the Company's secured consumer real estate notes receivable are with customers in the northeastern region of the U.S. Such real estate notes receivable are collateralized by real estate with a concentration in this region. Accordingly, the collateral value of a substantial portion of the Company's real estate notes receivable and real estate acquired through foreclosure is susceptible to changes in market conditions. In the event of sustained adverse economic conditions, it is possible that the Company could experience a negative impact in its ability to collect on existing loans, or liquidate foreclosed assets in this region which could impact the Company's related loan loss estimates.

Financing - Substantially all of the Company's existing debt and available credit facilities are with one financial institution. The Company's purchases of new portfolios is contingent upon the continued availability of these credit facilities.

14. COMMITMENTS AND CONTINGENCIES

Employment Agreement - Effective March 25, 1996, the Company entered into a five-year employment agreement with its Chief Operating Officer. The agreement provides for, among other things, a stipulated base salary, and a bonus of up to 3.5% of the Company's net income in excess of $500,000.

Effective July 17, 2000, the Company entered into a three-year employment agreement with its Chief Executive Officer. The agreement provides for, among other things, a stipulated base salary, and a bonus of up to 10% of the Company's net income in excess of $500,000.

Operating Leases - Certain secondary office and file space is leased under an operating lease. The lease commenced on December 1, 1998 and expires on November 30, 2007. New office space leased during 2000 is leased under an operating lease. The lease commenced on September 30, 2000 and expires on September 1, 2004. The combined future minimum lease payments for are as follows:

2001	$ 193,124
2002	196,020
2003	198,974
2004	198,974
Thereafter	457,019
	$1,244,111

Other Legal Actions - The Company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's financial statements.

15. RELATED PARTY TRANSACTIONS

On March 31, 1999, Mr. Steven W. Leftkowitz, a board member and stockholder, purchased from the Company without recourse a note held by the Company. The consideration given included a note for $270,000 of indebtedness to the Company. In addition, the Company recognized a gain of $72,566.

The note bears interest at a rate of 8% per annum payable monthly and is secured by a mortgage on real estate and is due May 31, 2001, but can be extended at his option to November 30, 2001. The Company believes that the terms of the sale of the note were similar to those available to the Company in arm's-length transactions.

During 1999, Mr. Axon provided the Company's Senior Debt Lender with a $350,000 personal guarantee in connection with the financing of the acquisition by the Company of certain high LTV loans. Mr. Axon is being compensated on the outstanding balance of this guarantee at the rate of -1/4% per annum which the Company believes is no greater than would be payable to an outside guarantor.

During 2000, Mr. Axon, the Company's Chairman purchased from the Company a New York condominium held by the Company in its OREO inventory available for sale. The consideration included the issuance by Mr. Axon of a note to the Company in the amount of $165,000. The note bears interest at a rate of 8% per annum, is secured by the condominium property, and is due together with all accrued interest and other charges on January 30, 2001 the note was extended by Mr. Axon for one year. The Company believes that the terms of the sale were at least as advantageous to the Company as those available from an arm's-length purchaser.

16. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below sets forth selected unaudited financial information for each quarter of the last two years.[OBJECT OMITTED]

	1ST QUARTER	2ND QUARTER	3RD QUARTER
2000			
Revenue	$ 6,498,458	$ 6,669,756	$ 6,707,978
Operating expenses	6,619,278	6,645,831	7,112,337
Income (Loss) before benefit for income taxes and net income (loss)	$ (120,820)	$ 23,925	$ (404,359)
Income (Loss) per common share			
Basic	$ (0.02)	$ 0.00	$ (0.07)
Diluted	$ (0.02)	$ 0.00	$ (0.07)
1999			
Revenue	$ 5,156,188	$ 5,385,172	$ 5,690,252
Operating expenses	4,938,348	5,141,833	5,816,751

(Loss) income before benefit for income income taxes and net (loss) income	$ 217,840	$ 243,339	$ (126,499)
(Loss) income per common share			
Basic	$ 0.04	$ 0.04	$ (0.02)
Diluted	$ 0.04	$ 0.04	$ (0.02)

17. SUBSEQUENT EVENTS

Subsequent to year-end, the Company has purchased approximately $13,900,000 in notes receivable at a cost of approximately $11,800,000.

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