

FRANKLIN CREDIT HOLDING CORP/DE/

Form 10-Q

August 14, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 HOLDING CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-3104776

(IRS Employer Identification No.)

**101 Hudson Street
Jersey City, New Jersey**
(Address of Principal Executive Offices)

07302

(Zip code)

(201) 604-1800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of August 11, 2009: 8,025,295

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CONSOLIDATED BALANCE SHEETS**

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 13,276,648	\$ 21,426,777
Restricted cash	1,271,695	27,890,706
Investment in REIT securities	477,316,409	
Investment in trust certificates at fair value	82,472,492	
Mortgage loans and real estate held for sale	410,772,828	
Notes Receivable:		
Principal		1,021,648,291
Purchase discount		(9,777,475)
Allowance for loan losses		(471,093,159)
Net notes receivable		540,777,657
Notes receivable held for sale	3,954,922	
Originated loans held for investment:		
Principal, net of deferred fees and costs		391,704,319
Allowance for loan losses		(49,876,092)
Originated loans held for investment, net		341,828,227
Accrued interest receivable	47,606	10,055,241
Other real estate owned		60,748,390
Deferred financing costs, net	7,369,087	7,824,432
Other receivables	9,636,090	7,028,334
Building, furniture and equipment, net	1,861,287	2,042,436
Income tax receivable	2,047,635	2,126,590
Other assets	927,880	634,652
Total assets	\$ 1,010,954,579	\$ 1,022,383,442

LIABILITIES AND STOCKHOLDERS (DEFICIT)

Liabilities:

Notes payable, net of debt discount of \$190,911 at June 30, 2009 and \$205,976 at December 31, 2008	\$ 1,366,971,035	\$ 1,442,126,964
Financing agreements	1,000,000	1,958,011
Nonrecourse liability	410,772,828	
Accounts payable and accrued expenses	8,130,097	15,056,870
Terminated derivative liability	8,200,000	
Derivative liabilities, at fair value	14,771,242	27,753,436
Total liabilities	1,809,845,202	1,486,895,281

Commitments and Contingencies

Stockholders (Deficit):

Preferred stock, \$0.01 par value; authorized 3,000,000; issued and outstanding: none

Common stock and additional paid-in capital, \$0.01 par value, 22,000,000 authorized shares; issued and outstanding: 8,025,295 at June 30, 2009 and 8,025,295 at December 31, 2008

Noncontrolling interest in subsidiary

Accumulated other comprehensive (loss)

Retained (deficit)

Total stockholders (deficit)

Total liabilities and stockholders (deficit)

21,804,659	23,383,120
1,710,490	
(20,157,137)	(27,753,436)
(802,248,635)	(460,141,523)
(798,890,623)	(464,511,839)
\$ 1,010,954,579	\$ 1,022,383,442

See Notes to Consolidated Financial Statements.

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FRANKLIN CREDIT HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Interest income	\$ 16,676,815	\$ 26,605,598	\$ 33,131,140	\$ 58,925,728
Dividend income	10,629,299		10,629,299	
Purchase discount earned		805,409	392,127	1,586,750
Gain on recovery from contractual loan purchase rights	30,550,000		30,550,000	
(Loss) on mortgage loans and real estate held for sale			(282,593,653)	
(Loss) on valuation of investments in trust certificates and notes receivable held for sale			(62,651,940)	
Fair valuation adjustments	(14,393,966)		(14,393,966)	
Gain on sale of other real estate owned		291,891	374,344	382,707
Servicing fees and other income	1,717,609	3,175,150	4,227,166	5,197,873
Total revenues/(losses)	45,179,757	30,878,048	(280,335,483)	66,093,058
Operating Expenses:				
Interest expense	17,117,236	18,902,627	34,800,392	41,784,636
Collection, general and administrative	6,905,713	12,305,127	25,598,708	21,928,296
Provision for loan losses		280,491,641	169,479	289,147,466
Amortization of deferred financing costs	288,577	318,126	455,345	573,965
Depreciation	157,892	297,676	314,540	614,302
Total expenses	24,469,418	312,315,197	61,338,464	354,048,665
Income/(loss) before provision for income taxes	20,710,339	(281,437,149)	(341,673,947)	(287,955,607)
Income tax	433,165		433,165	
Net income/(loss)	\$ 20,277,174	\$ (281,437,149)	\$ (342,107,112)	\$ (287,955,607)
Net income/(loss) per common share:				
Basic	\$ 2.53	\$ (35.26)	\$ (42.78)	\$ (36.10)
Diluted	\$ 2.53	\$ (35.26)	\$ (42.78)	\$ (36.10)

Weighted average number of shares outstanding:

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Basic	8,000,295	7,981,545	7,997,170	7,975,920
Diluted	8,000,295	7,981,545	7,997,170	7,975,920

See Notes to Consolidated Financial Statements.

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FRANKLIN CREDIT MANAGEMENT HOLDING AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS (DEFICIT)
SIX MONTHS ENDED JUNE 30, 2009

	Common Stock and Additional Paid-in Capital		Accumulated Other Comprehensive Loss	Noncontrolling Interest in Subsidiary	Retained (Deficit)	Total
	Shares	Amount				
BALANCE, JANUARY 1, 2009	8,025,295	\$ 23,383,120	\$ (27,753,436)	\$	\$ (460,141,523)	\$ (464,511,839)
Stock-based compensation		132,029				132,029
Transfer of noncontrolling interest in subsidiary		(1,710,490)		1,710,490		
Amortization unrealized loss on derivatives			7,596,299			7,596,299
Net (loss)					(342,107,112)	(342,107,112)
 BALANCE, JUNE 30, 2009 (UNAUDITED)	 8,025,295	 \$ 21,804,659	 \$ (20,157,137)	 \$ 1,710,490	 \$ (802,248,635)	 \$ (798,890,623)

For the six months ended June 30, 2009, the total comprehensive loss amounted to \$334,510,813 which was comprised of the net loss of \$342,107,112 and amortization of unrealized loss on derivatives of \$7,596,299.

See Notes to Consolidated Financial Statements.

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FRANKLIN CREDIT HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (342,107,112)	\$ (287,955,607)
Adjustments to reconcile income to net cash provided by/(used in) operating activities:		
Gain on sale of other real estate owned	(374,344)	(382,707)
Depreciation	314,540	614,302
Amortization of deferred costs and fees on originated loans	48,215	(296,848)
Loss on mortgage loans and real estate held for sale	282,593,653	
Fair valuation adjustments	14,393,966	
Loss on valuation of investment in trust certificates and notes receivable held for sale	62,651,940	
Principal collections on mortgage loans held for sale	28,992,711	
Proceeds from sale of real estate held for sale	22,251,806	
Amortization of deferred financing costs	455,345	573,965
Amortization of debt discount and success fees	15,065	15,279
Non-cash compensation	132,029	141,394
Purchase discount earned	(392,127)	(1,586,750)
Provision for loan losses	169,479	289,147,466
Changes in operating assets and liabilities:		
Accrued interest receivable	1,611,839	2,956,661
Other receivables	(9,589,412)	(993,550)
Income tax receivable	78,955	(400,736)
Paid in kind interest	6,938,945	
Other assets	(293,227)	(415,414)
Transfer to fixed assets	(127,190)	
Accounts payable and accrued expenses	(12,312,666)	(6,632,789)
Terminated derivative liability	8,200,000	
Net cash provided by/(used in) operating activities	63,652,410	(5,215,334)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase)/decrease in restricted cash	26,619,011	3,789,059
Principal collections on notes receivable	10,813,027	49,731,473
Principal collections on loans held for investment	5,857,079	40,126,149
Investment in short-term securities		(69,308)
Putback of acquired notes receivable		394,893
Proceeds from sale of other real estate owned	19,227,015	17,033,555
Purchase of building, furniture and equipment	(6,201)	(78,874)
Net cash provided by investing activities	62,509,931	110,926,947

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments of notes payable	(82,109,940)	(109,294,886)
Proceeds from financing agreements	2,017,052	291,980
Principal payments of financing agreements	(2,975,063)	(397,528)
Payments on nonrecourse liability	(51,244,519)	

Net cash (used in) financing activities	(134,312,470)	(109,400,434)
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,150,129)	(3,688,821)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,426,777	18,266,066

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 13,276,648	\$ 14,577,245
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash payments for interest	\$ 23,349,263	\$ 41,784,636
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Cash payments for taxes	\$ 268,154	\$ 400,736
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NON-CASH INVESTING AND FINANCING ACTIVITY:

Transfer from notes receivable and loans held for investment to OREO	\$ 20,566,413	\$ 41,886,259
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See Notes to Consolidated Financial Statements.

Table of Contents**FRANKLIN CREDIT HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. BUSINESS****Overview*****March 2009 Restructuring***

Effective March 31, 2009, Franklin Credit Holding Corporation (Franklin Holding), and its consolidated subsidiaries (together with Franklin Holding, we, us, our or the Company, unless otherwise specified or the context otherwise requires), including Franklin Credit Management Corporation (FCMC) and Tribeca Lending Corp. (Tribeca), entered into a series of agreements (collectively, the Restructuring Agreements) with The Huntington National Bank (the Bank, Lead Lending Bank or Huntington), successor by merger to Sky Bank, pursuant to which the Company's loans, pledges and guarantees with the Bank and its participating banks were substantially restructured pursuant to a legacy credit agreement (the Legacy Credit Agreement), approximately 83% of the Company's portfolio of subprime mortgage loans and owned real estate, acquired through foreclosure, was transferred to Huntington Capital Financing, LLC (the REIT), a real estate investment trust wholly-owned by the Bank, FCMC and Franklin Holding entered into an amended \$13.5 million credit facility with the Bank (the Licensing Credit Agreement), and FCMC entered into a market-rate servicing agreement (the Servicing Agreement) with the Bank (the Restructuring). In connection with the Restructuring, the Company in April 2009 engaged in a number of cost-savings measures that should result in improved financial performance of FCMC, its servicing subsidiary company.

The Restructuring did not include a portion of the Company's debt (the Unrestructured Debt), which as of March 31, 2009 totaled approximately \$40.7 million. The Unrestructured Debt remains subject to the original terms of the Franklin forbearance agreement entered into with the Bank in December 2007 and subsequent amendments thereto (the Franklin Forbearance Agreement) and the Franklin 2004 master credit agreement. On April 20, 2009, Franklin Holding, and certain of its direct and indirect subsidiaries, including Franklin Credit Management Corporation (FCMC) and Franklin Credit Asset Corporation (Franklin Asset) entered into an amendment of the Franklin Forbearance Agreement and Franklin 2004 master credit agreement (the Amendment) with the Bank relating to the Unrestructured Debt. Under the Amendment, the forbearance period with respect to the Unrestructured Debt was extended from May 15, 2009 to June 30, 2009, and the Bank agreed to forbear, during the forbearance period, with respect to any defaults past or present with respect to any failure to make scheduled principal and interest payments to the Bank (Identified Forbearance Default) relating to the Unrestructured Debt. On August 10, 2009, the forbearance period with respect to the balance of approximately \$40.2 million of Unrestructured Debt was further extended from June 30, 2009 through and including September 30, 2009. During the forbearance period, the Bank, absent the occurrence and continuance of a forbearance default other than an Identified Forbearance Default, will not initiate collection proceedings or exercise its remedies in respect of the Unrestructured Debt or elect to have interest accrue at the stated rate applicable after default. In addition, FCMC is not obligated to the Bank with respect to the Unrestructured Debt and that any references to FCMC in the Franklin 2004 master credit agreement governing the Unrestructured Debt have been amended to refer to Franklin Asset.

Upon expiration of the forbearance period, in the event that the Unrestructured Debt with the Bank remains outstanding, the Bank, with notice, could call an event of default under the Legacy Credit Agreement. The Licensing Credit Agreement and the Servicing Agreement do not include cross-default provisions that would be triggered by such a default. The Bank's recourse in respect of the Legacy Credit Agreement is limited to the assets and stock of Franklin Holding's subsidiaries, excluding the assets of FCMC (except for a first lien of the Bank on an office condominium unit and a second priority lien of the Bank on cash collateral held as security under the Licensing Credit Agreement) and the unpledged portion of FCMC's stock.

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The Franklin forbearance agreement and the Tribeca forbearance agreement (together, the Forbearance Agreements) that had been entered into with the Bank have been replaced effective March 31, 2009 by the Restructuring Agreements.

On June 25, 2009, in connection with the Restructuring and with the approval of the holders of more than two-thirds of the shares of Franklin Holding entitled to vote at an election of directors, the Certificate of Incorporation of FCMC was amended to delete the provision, adopted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware in connection with the Company s December 2008 corporate reorganization, that had required the approval of the stockholders of Franklin Holding in addition to the stockholders of FCMC for any action or transaction, other than the election or removal of directors, that would require the approval of the stockholders of FCMC.

For a fuller discussion of the foregoing, see Management s Discussion and Analysis Borrowings Restructuring Agreements with Lead Lending Bank.

Going Concern Uncertainty Franklin Holding

The Company has been and continues to be operating in an extraordinary and difficult environment, and has been significantly and negatively impacted by the unprecedented credit and economic market turmoil, and the recessionary economy. Particularly impacting Franklin has been the severe deterioration in the U.S. housing market and the nearly complete shutdown of the mortgage credit market for borrowers without excellent credit histories, and the recessionary economy with increasing unemployment. These unprecedented market conditions adversely affected the Company s portfolio of residential mortgage loans, particularly its second-lien mortgage loans, delinquencies, provisions for loan losses, operating losses and cash flows, which resulted in a significant stockholders deficit of \$798.9 million at June 30, 2009. The Company has been, since the latter part of 2007, expressly prohibited by the Bank from acquiring or originating loans. In addition, the Company s restructuring agreements with the Bank contain affirmative covenants that the Company s servicing subsidiary, FCMC, be licensed, qualified and in good standing, where required, and that it maintain its licenses to service mortgage loans and real estate owned properties serviced under the servicing agreement entered into in connection with the Restructuring. Any event of default under the March 31, 2009 Restructuring Agreements, or failure to successfully renew these Restructuring Agreements or enter into new credit facilities with Huntington prior to their scheduled maturity, could entitle Huntington to declare the Company s indebtedness immediately due and payable and result in the transfer of the remaining loans pledged to Huntington to a third party. Moreover, certain events of default under the Restructuring Agreements, including defaults under provisions relating to enforceability, bankruptcy, maintenance of collateral and lien positions, and certain negative covenants typical for agreements of this nature, or defaults under its Servicing Agreement with the Bank or the Licensing Credit Agreement could result in the transfer of the Company s sub-servicing contract as servicer of its loans. Without the continued cooperation and assistance from Huntington, the consolidated Franklin Holding s ability to continue as a viable business is in doubt, and it may not be able to continue as a going concern. These matters raise substantial doubt about Franklin Holding s ability to continue as a going concern.

As a result of the Restructuring and the corporate reorganization that took effect December 19, 2008, FCMC, the servicing company within the Franklin consolidated group of companies, has positive net worth and since January 1, 2009 has been profitable. FCMC s standalone balance sheet as of December 31, 2008 received an unqualified opinion from our Independent Public Accounting Firm. See Results of Operations Franklin Credit Management Corporation (FCMC).

Table of Contents***Operating Losses and Stockholders' Deficit***

The Company had net income of \$20.3 million for the second quarter of 2009, compared with a net loss of \$281.4 million for the second quarter of 2008. The principal driver of the \$301.7 million decrease in the net loss for the second quarter of 2009 was the restructured balance sheet that resulted from the Restructuring and the resultant write-down to estimated fair value of the Company's loan portfolios in the first quarter of 2009. Exclusive of a nonrecurring gain on recoveries from contractual loan purchase rights in the aggregate amount of \$30.6 million received in the second quarter of 2009, the Company would have reported a net loss of approximately \$10 million. The Company had a consolidated net loss of \$342.1 million for the six months ended June 30, 2009. The net loss for the first half of 2009 was driven principally by the restructuring agreement entered into with the Bank effective March 31, 2009. As part of the Restructuring, at March 31, 2009, the Company transferred approximately 83%, or approximately \$760 million, of its portfolio of subprime mortgage loans and owned real estate (in the form of trust certificates that had been issued by the trust formed by the Bank as part of the Restructuring (the "Trust")) and received preferred and common stock in the amount of \$477.3 million in Huntington's REIT. Because the transfer of the trust certificates is treated as a financing and not a sale for accounting purposes, the mortgage loans and real estate remained on the Company's balance sheet classified as mortgage loans and real estate held for sale securing a nonrecourse liability in an equal amount. The loss, therefore, represented a write-down to fair market value of the mortgage loans and real estate held for sale. Effective March 31, 2009, the carrying value of the remaining approximately 17%, or \$151.2 million, of its portfolio of subprime mortgage loans and owned real estate was also transferred to the Trust as part of the Restructuring in exchange for trust certificates (Investments in trust certificates at fair value) that are held by the Company, and was reclassified as an investment available for sale and, therefore, recorded at fair value approximating \$95.8 million on March 31, 2009. In addition, the Company classified as an investment held for sale loans with a carrying value of approximately \$11.4 million of the Company's remaining subprime mortgage loans not subject to the Restructuring (notes receivable held for sale, net), which collateralizes the debt that remains subject to the original terms of the forbearance and 2004 master credit agreements (the Unrestructured Debt) and, as a result recognized a loss of \$7.3 million, which, on March 31, 2009, was recorded as loss on valuation of investment in trust certificates and notes receivable held for sale.

Although the transfer of the trust certificates, representing approximately 83% of the Company's portfolio of subprime mortgage loans and owned real estate, to the REIT was structured in substance as a sale of financial assets, the transfer, for accounting purposes, is being treated as a financing under Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). While Franklin transferred legal ownership and all of the economic interests and risks relating to the underlying assets of the trust certificates to the Bank in exchange for preferred and common stocks of the REIT, the transfer did not meet one of the technical requirements of SFAS 140 insofar as, for accounting purposes, the transferred assets have not been legally isolated from the Company and put presumptively beyond the reach of the Company and its creditors, even in bankruptcy. The treatment as a financing on the Company's balance sheet, however, did not affect the cash flows of the transfer, and does not affect the Company's cash flows or its reported net income nor would it, necessarily, dictate the treatment of the assets in a bankruptcy.

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The requirements imposed by state mortgage finance licensing laws vary considerably. In addition to the requirement for a license to engage in mortgage origination and brokerage activities, many mortgage licensing laws impose a licensing obligation to service residential mortgage loans. Further, certain state collection agency licensing laws require entities collecting on current, delinquent or defaulted loans for others or to acquire such loans to be licensed as well. Once these licenses are obtained, state regulators impose additional ongoing obligations on licensees, such as maintaining certain minimum net worth or line of credit requirements. Generally, net worth is determined in accordance with accounting principles generally accepted in the United States of America (GAAP) with the minimum net worth varying from state to state. In limited instances, the net worth calculation may not include recourse on any contingent liabilities. The highest state minimum net worth requirement, with respect to states other than New York, is \$250,000. In New York, under the new servicing registration law that went into effect on July 1, 2009, the net worth requirement is the greater of 1% of the outstanding principal balance of New York loans serviced or \$250,000, which when applied to FCMC would be approximately \$1.73 million). If the Company s servicing subsidiary, FCMC, does not, among other things, meet these minimum net worth or line of credit requirements, state regulators may revoke or suspend FCMC s licenses and prevent FCMC from continuing to service loans in such states, which would adversely affect FCMC s operations and financial condition and ability to attract new servicing customers. As of June 30, 2009, we believe that FCMC has net worth in excess of that which is required to maintain its licenses, both in accordance with GAAP and with requirements of those states that exclude the portion of its assets pledged to secure the obligations of any other person or entity.

While at December 31, 2008, FCMC had positive net worth in accordance with GAAP, its deficit net worth during 2008 resulted in FCMC s noncompliance with the requirements to maintain certain licenses in approximately 21 states. The regulators in these states could have taken a number of possible corrective actions in response to FCMC s noncompliance, including license revocation or suspension, requirement for the filing of a corrective action plan, denial of an application for a license renewal or a combination of the same, in which case FCMC s business would have been adversely affected. As a consequence of its deficit net worth, FCMC was contacted by four state regulators to address its noncompliance with state laws. In October 2008, FCMC was notified of such noncompliance by the state of West Virginia and, as a result, entered into an Assurance of Voluntary Compliance with the state s Commissioner of Banking to assure the state that, as of November 30, 2008, FCMC would meet the state s statutory minimum net worth requirement of \$250,000. In November 2008, the state of Ohio issued a Notice of Intent to Refuse Renewal unless FCMC explained how it would meet the state s minimum net worth requirement of \$50,000. On December 2, 2008, the state of Washington notified FCMC that the processing of its collection agency license renewal was being delayed pending the state s review of FCMC s off-balance sheet liabilities to its corporate affiliate. Finally, on January 14, 2009, the state of Wisconsin issued FCMC a Letter of Reprimand that cited its failure in 2008 to maintain the minimum net worth required of mortgage bankers registered in the state.

In order to address these and other issues, in December 2008, FCMC completed a reorganization of its company structure for the principal purpose of restoring the required minimum net worth under FCMC s licenses to ensure that FCMC would be able to continue to service mortgage loans. Effective December 19, 2008, Franklin Holding became the parent company of FCMC in the adoption of a holding company form of organizational structure. This reorganization (the Reorganization) resulted in FCMC, which holds the Company s servicing platform, having positive net worth as a result of having assigned and transferred to a newly formed sister company ownership of the entities that held beneficial ownership of the Company s loan portfolios and the related indebtedness and accordingly, being able to comply with applicable net worth requirements to maintain licenses to service and collect loans in various jurisdictions; and, is expected to enhance FCMC s ability to grow its servicing business. Other than the difference in their names, the certificate of incorporation, by-laws, authorized capital stock, outstanding capital stock, board of directors and officers of Franklin Holding are the same as those of FCMC prior to the reorganization. No post-merger exchange of stock certificates was necessary, and the outstanding shares of FCMC common stock have been automatically converted into an equal number of shares of Franklin Holding common stock.

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The business operations and financial condition of the Company taken as a whole, including FCMC, which holds the servicing platform, on a consolidated basis, including the Company's consolidated substantial negative net worth, did not change as a result of the Reorganization. However, the resulting financial condition of FCMC changed, inasmuch as it had positive net worth at December 31, 2008, at March 31, 2009 and June 30, 2009.

Upon our compliance with the state's minimum net worth requirement as a result of the Reorganization, FCMC's West Virginia license was renewed on December 30, 2008. Ohio terminated its Notice of Intent to Refuse Renewal on January 8, 2009. The state of Wisconsin also noted that FCMC had tangible net worth in excess of \$250,000 by December 31, 2008. On June 12, 2009, FCMC was notified that its Washington state collection agency license was renewed. The Company, however, may be subject to future regulatory action in three other states, Michigan, Illinois and Massachusetts, because in those states the net worth calculation may not include recourse on any contingent liabilities, which prior to March 31, 2009, would have caused FCMC's net worth to be deemed negative by those states. As of and since March 31, 2009, however, we believe that FCMC has maintained net worth in excess of that which is required to maintain its licenses in such states. In the summer of 2008, FCMC formed a wholly-owned subsidiary, Franklin Credit Loan Servicing, LLC, a Delaware limited liability company (and following the Reorganization, a wholly-owned subsidiary of the Company), which does not have any liabilities or pledged assets and, therefore, is expected to become licensed in those three states and in the event that such states determine that FCMC does not meet the applicable net worth requirements, Franklin Credit Loan Servicing, LLC would, upon licensure, service loans in such states so that the Company overall has the required licenses to operate in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico. Under the Servicing Agreement entered into on March 31, 2009 as part of the Restructuring with Huntington, it would be an event of default if FCMC failed to maintain its license to do business in any jurisdiction where any mortgaged property or other real estate owned (OREO) property serviced under the servicing agreement is located and such failure continues unremedied for ten (10) days, which, if the same were to occur, would entitle the Bank to terminate the Servicing Agreement. In addition, with notice in connection with such a default, the Bank could also call an event of default under the Licensing Credit Agreement and the Legacy Credit Agreement entered into in connection with the Restructuring, which, among other remedies, would entitle the Bank to foreclose on the assets of the Company pledged to the Bank, including on Franklin Holding's pledge of 70% of the common stock of FCMC.

Franklin's Business

As a result of the Restructuring and the Reorganization that took effect December 19, 2008, FCMC, the servicing company within the Franklin consolidated group of companies, has positive net worth and since January 1, 2009 has been profitable.

The Company's operating business is conducted principally through FCMC (a subsidiary company of Franklin), which is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, reperforming and nonperforming residential mortgage loans, and in the analysis, pricing, due diligence and acquisition of residential mortgage portfolios, for third parties. The portfolios serviced for other entities, as of June 30, 2009, principally for Huntington (loans previously acquired and originated by Franklin and transferred to the Trust), primarily consist of first and second-lien loans secured by 1-4 family residential real estate that generally fell outside the underwriting standards of Fannie Mae and Freddie Mac and involve elevated credit risks as a result of the nature or absence of income documentation, limited credit histories, higher levels of consumer debt or credit difficulties.

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In the past year, through our servicing subsidiary, FCMC, we have been seeking to begin providing services for third parties, on a fee-paying basis, which are directly related to our servicing operations and our portfolio acquisition experience with residential mortgage loans. We are actively seeking to (a) expand our servicing operations to provide servicing and collection services to third parties, particularly specialized collection services, and (b) capitalize on our experience to provide customized, comprehensive loan analysis and in-depth end-to-end transaction and portfolio management services to the residential mortgage markets. Some of these services include, in addition to servicing loans for others, performing 1-4 family residential portfolio stratification and analysis, pricing, due diligence, closing, and collateral transfer. These new business activities are subject to the consent of the bank, and we may not be successful in entering into or implementing any of these businesses in a meaningful way.

On May 28, 2008, FCMC entered into various agreements, including a servicing agreement, to service on a fee-paying basis approximately \$245 million in residential home equity line of credit mortgage loans for Bosco Credit LLC (Bosco). Bosco was organized by FCMC, and the membership interests in Bosco include the Company's Chairman and President, Thomas J. Axon, and a related company of which Mr. Axon is the chairman of the board and three of the Company's directors serve as board members of that entity. The loans that are subject to the servicing agreement were acquired by Bosco on May 28, 2008, and the Bank is the administrative agent for the lenders to Bosco. FCMC also provided the loan analysis, due diligence and other services for Bosco on a fee-paying basis for the loans acquired by Bosco.

On February 27, 2009, FCMC entered into an amendment (the Amendment) to the Bosco servicing agreement. The Amendment provides that, for the next 12 months, FCMC's monthly servicing fee will be paid only after a monthly loan modification fee of \$29,167 is paid to Bosco's lenders. Additionally, the Amendment provides that, on each monthly payment date, if the aggregate amount of net collections is less than \$1 million, 25% of FCMC's servicing fee will be paid only after certain other monthly distributions are made, including, among other things, payments made by Bosco to repay its third-party indebtedness. The term of this provision is indefinite. If the amount of collections is not sufficient to make the required payments in any given month, the unpaid servicing fees due to FCMC, or portions thereof, will accrue and become due and payable the next month or in future months.

Prior to December 28, 2007, the Company was primarily engaged in the acquisition and origination for portfolio, and servicing and resolution, of performing, reperforming and nonperforming residential mortgage loans and real estate assets, including the origination of subprime mortgage loans. We specialized in acquiring and originating loans secured by 1-4 family residential real estate that generally fell outside the underwriting standards of Fannie Mae and Freddie Mac and involved elevated credit risk as a result of the nature or absence of income documentation, limited credit histories, higher levels of consumer debt or past credit difficulties.

Loan Servicing

We have invested to create a loan servicing capability that is focused on collections, loss mitigation and default management. In general, we seek to ensure that the loans we service for others are repaid in accordance with the original terms or according to amended repayment terms negotiated with the borrowers and in accordance with the terms of our servicing contracts with our servicing customers. Because the loans we service generally experience above average delinquencies, erratic payment patterns and defaults, our servicing operation is focused on maintaining close contact with borrowers and as a result, is more labor-intensive than traditional mortgage servicing operations. Through frequent communication we are able to encourage positive payment performance, quickly identify those borrowers who are likely to move into seriously delinquent status and promptly apply appropriate loss mitigation and recovery strategies. Our servicing staff employs a variety of collection strategies that we have developed to successfully manage serious delinquencies, bankruptcy and foreclosure. Additionally, we maintain a real estate department with experience in property management and the sale of residential properties.

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As of June 30, 2009, through our servicing subsidiary, FCMC, we had two significant servicing contracts with third parties to service 1-4 family mortgage loans and owned real estate, Huntington and Bosco.

Due Diligence Services

During the first quarter of 2008, capitalizing on our portfolio acquisition experience with residential mortgage loans, the Company began providing services for third parties not related to us or our lender, on a fee-paying basis. During 2008, we completed 13 due diligence or loan analysis and pricing assignments for third parties interested in acquiring mortgage loan pools. During the six months ended June 30, 2009, we were engaged in due diligence, loan analysis and pricing for a third party that acquired a small residential mortgage loan pool.

Financing

We historically financed both our acquisitions of mortgage loan portfolios and our loan originations through various long and short-term borrowing arrangements with Sky Bank, the predecessor to the Bank, with which we had a strong relationship since the early 1990s.

On December 28, 2007, Franklin entered into Forbearance Agreements with the Bank, which substantially modified our borrowing arrangements referred to above and expressly terminated fundings for new acquisitions and originations under those credit facilities. Effective March 31, 2009, Franklin entered into a series of Restructuring Agreements with the Bank, pursuant to which the Company's debt, loans, pledges and guarantees with the Bank and its participating banks were substantially restructured, and approximately 83% of the Company's portfolio of subprime mortgage loans and owned real estate, acquired through foreclosure, while not removed from the Company's balance sheet, was transferred to a real estate investment trust wholly-owned by a subsidiary of the Bank. Except for approximately \$40.2 million of the Company's debt that remains subject to the original terms of the Franklin 2004 master credit agreement and the Franklin Forbearance Agreement, all previous Forbearance Agreements and credit agreements have been replaced effective March 31, 2009 by the Restructuring Agreements. See Management's Discussion and Analysis - Borrowings.

Corporate History

We were formed in 1990 by, among others, Thomas J. Axon, our Chairman and President, and Frank B. Evans, Jr., one of our directors, for the purpose of acquiring consumer loan portfolios from the Resolution Trust Company, or RTC, and the Federal Deposit Insurance Corporation, or FDIC. We became a public company in December 1994, when we merged with Miramar Resources, Inc., a publicly traded oil and gas company that had emerged from bankruptcy proceedings in December 1993. The newly formed entity was renamed Franklin Credit Management Corporation. At the time of the merger, we divested substantially all of the remaining oil and gas assets directly owned by Miramar in order to focus primarily on the non-conforming sector of the residential mortgage industry. At that time, we decided to capitalize on our experience and expertise in acquiring and servicing loans from the RTC and the FDIC and began purchasing performing, reperforming and nonperforming residential mortgage loans from additional financial institutions. In 1997, we formed Tribeca to originate subprime residential mortgage loans.

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In December 2007, Franklin entered into Forbearance Agreements with the Bank, which substantially modified our borrowing arrangements referred to above and terminated fundings for new acquisitions and originations under those credit facilities.

In December 2008, the Company engaged in the Reorganization in which the Company (i) adopted a holding company form of organizational structure, with Franklin Holding serving as the new public-company parent, (ii) transferred all of the equity and membership interests in FCMC's direct subsidiaries to other entities in the reorganized corporate structure of the Company, (iii) assigned legal record ownership of any loans in the Company's portfolios held directly by FCMC and Tribeca, to other entities in the reorganized corporate structure of the Company, and (iv) amended its loan agreements with Huntington. As a result, Franklin Credit Holding Corporation is the successor issuer to FCMC.

In the Reorganization, FCMC became a subsidiary of Franklin Holding and ceased to have any subsidiaries and, therefore, ceased to have portfolios of loans and real estate properties and the related indebtedness to the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Quarterly Reports Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the periods.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As of June 30, 2009, the most significant estimates of the Company are the continuing assessment of the fair value of the investment in (i) preferred and common stocks, or the REIT Securities, (ii) trust certificates, and (iii) because for accounting purposes the Restructuring is being treated as a financing under SFAS 140, mortgage loans and real estate held for sale and the corresponding nonrecourse liability. The Company's estimates and assumptions primarily arise from uncertainties and changes associated with interest rates and the secondary and whole loan markets for residential 1-4 family mortgage loans. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends and conditions may occur which could cause actual results to differ materially.

Investment in REIT Securities Investment in preferred stock is classified at the date of purchase as available for sale securities and carried at fair market value, which is valued as of the end of each reporting period. The fair value of the preferred stock was established at the date received on March 31, 2009, the effective date of the Restructuring. As the preferred stock in the REIT is not marketable, and cannot be sold or redeemed by the Company, the fair value subsequent to March 31, 2009, while essentially equal to the value received on the date of the Restructuring, is evaluated quarterly to confirm that the cash flows from the REIT securities approximate fair market value and that the cash flows from the REIT are significantly in excess of, and can support, the dividend on the REIT securities. The investment in common stock of the REIT of approximately \$4.9 million is carried at cost.

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Investment in Trust Certificates Investment in trust certificates is classified at the date of purchase as available for sale, and the fair value adjustment at March 31, 2009 was recorded as loss on valuation of trust certificates and notes receivable held for sale. Investment in trust certificates is carried at fair market value, and the certificates are valued as of the end of each reporting period. Subsequent to March 31, 2009, changes in fair value are recorded in earnings as fair valuation adjustments. The fair value of the trust certificates is based on an assessment of the underlying investment, expected cash flows and other market-based information, and where observable market prices and other data are not available for similar investments, pricing models or discounted cash flow analyses, using observable market data where available, are utilized to estimate fair market value.

Mortgage Loans and Real Estate Held for Sale As part of the Restructuring, approximately 83% of the Company's portfolio of subprime mortgage loans and owned real estate, acquired through foreclosure, were transferred to the REIT and are classified as held for sale. As a result, a loss on the transfer was recorded as loss on mortgage loans and real estate held for sale. Subsequent to March 31, 2009, mortgage loans and real estate held for sale are carried at the lower of cost or market value. Because the transfer has been accounted for as a secured financing in accordance with SFAS No. 140 (based solely on the assertion that the transferred assets have not been legally isolated from the Company and put presumptively beyond the reach of the Company and its creditors, even in bankruptcy), the mortgage loans and real estate remain on the Company's balance sheet classified as mortgage loans and real estate held for sale with a nonrecourse liability in an equal amount. The fair value of the mortgage loans held for sale is based on an assessment of the underlying residential 1-4 family mortgage loans and real estate, expected cash flows and other market-based information, and where observable market prices and other data are not available for similar loans, pricing models or discounted cash flow analyses, using observable market data where available, are utilized to estimate market value. Mortgage loans and real estate held for sale are valued as of the end of each reporting period, and changes in fair value are recorded in earnings as fair valuation adjustments.

Nonrecourse Liability The nonrecourse liability is the offset to, and is secured by, the mortgage loans and real estate held for sale. The Company elected the fair value option for the nonrecourse liability, and adjustments to fair value are recorded as fair valuation adjustments. No interest expense is recorded on the nonrecourse liability as any payments received from the Trust on the investment in trust certificates are recorded as a reduction to the balance of the nonrecourse liability, which is adjusted to fair value each quarter through the fair valuation adjustments line item.

Fair Valuation Adjustments Fair valuation adjustments include amounts after March 31, 2009 related to adjustments in the fair value of the investment in trust certificates and the nonrecourse liability, and adjustments to the lower of cost or market related to mortgage loans and real estate held for sale, and for losses on sales of real estate owned.

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The following table sets forth the activity affecting the fair valuation adjustments during the three months ended June 30, 2009:

	Three Months Ended June 30, 2009
Valuation (loss) on OREO sold	\$ (11,564,907)
Valuation (loss) on mortgage loans and OREO	(17,046,415)
Valuation gain on nonrecourse liability	16,368,732
Other	(2,151,376)
(Loss) on valuation	\$ (14,393,966)

Notes Receivable Held for Sale At March 31, 2009, as part of the Restructuring, notes receivable are classified as held for sale as this portfolio is being actively marketed for sale, and a lower of cost or market value was recorded as loss on valuation of investments in trust certificates and notes receivable held for sale. Subsequent to March 31, 2009, the fair value of the notes receivable is based on an assessment of the underlying residential 1-4 family mortgage loans, expected cash flows and other market-based information, and where observable market prices and other data are not available for similar loans, pricing models or discounted cash flow analyses, using observable market data where available, are utilized to estimate market value. Notes receivable are valued as of the end of each reporting period, and changes in fair value are recorded as fair valuation adjustments.

Income Recognition on Investment in Trust Certificates and Mortgage Loans and Real Estate Held for Sale

Income on the investment in mortgage loans and real estate held for sale is estimated based on the available information on these loans and real estate provided by our Bank and from the loans serviced for the Trust. The estimated income does not represent cash received and retained by the Company, and is essentially offset through a valuation adjustment of the nonrecourse liability. During the second quarter of 2009, the Company revised its interest accrual policy to accrue only one month of interest on performing loans (loans that are contractually current).

Notes Receivable and Income Recognition The notes receivable portfolio consisted primarily of secured real estate mortgage loans purchased from financial institutions and mortgage and finance companies. Such notes receivable were performing, nonperforming or subperforming at the time of purchase and were generally purchased at a discount from the principal balance remaining. Notes receivable were carried at the amount of unpaid principal, reduced by purchase discount and allowance for loan losses. The Company reviewed its loan portfolios upon purchase of loan pools, at loan boarding, and on a frequent basis thereafter to determine an estimate of the allowance necessary to absorb probable loan losses in its portfolios. Management's judgment in determining the adequacy of the allowance for loan losses was based on an evaluation of loans within its portfolios, the known and inherent risk characteristics and size of the 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. In connection with the determination of the allowance for loan losses, management obtained independent appraisals for the underlying collateral on an ongoing basis in accordance with company policy.

In general, interest on the notes receivable was calculated based on contractual interest rates applied to daily balances of the principal amount outstanding using the accrual method. Accrual of interest on notes receivable, including impaired notes receivable, was discontinued when management believed, after considering economic and business conditions and collection efforts, that the borrower's financial condition was such that collection of interest was doubtful. When interest accrual was discontinued, all unpaid accrued interest was reversed against interest income. Subsequent recognition of income occurred only to the extent payment was received, subject to management's assessment of the collectibility of the remaining interest and principal. A non-accrual note was restored to an accrual status when collectibility of interest and principal was no longer in doubt and past due interest was recognized at that time.

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Originated Loans Held for Investment In general, interest on originated loans held for investment was calculated based on contractual interest rates applied to daily balances of the principal amount outstanding using the accrual method. The Company accrued interest on secured real estate first mortgage loans originated by the Company up to a maximum of 209 days contractually delinquent with a recency payment in the last 179 days, and that were judged to be fully recoverable for both principal and accrued interest, based principally on a foreclosure analysis that included an updated estimate of the realizable value of the property securing the loan.

The accrual of interest was discontinued when management believed, after considering economic and business conditions and collection efforts, that the borrower's financial condition was such that collection of interest was doubtful, which can be less than 209 days contractually delinquent with a recency payment in the last 179 days. When interest accrual was discontinued, the unpaid accrued interest on certain loans in the foreclosure process was not reversed against interest income where the current estimate of the value of the underlying collateral exceeded 110% of the outstanding loan balance. For all other loans held for investment, all unpaid accrued interest was reversed against interest income when interest accrual was discontinued. Except for certain loan modifications, subsequent recognition of income occurred only to the extent payment was received, subject to management's assessment of the collectibility of the remaining interest and principal.

Allowance for Loan Losses The Company reviewed its loan portfolios upon purchase of loan pools, at loan boarding, and on a frequent basis thereafter to determine an estimate of the allowance necessary to absorb probable loan losses in its portfolios. Management's judgment in determining the adequacy of the allowance for loan losses was based on an evaluation of loans within its portfolios, the known and inherent risk characteristics and size of the 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. In connection with the determination of the allowance for loan losses, management obtained independent appraisals for the underlying collateral on an ongoing basis in accordance with company policy.

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The following table shows the activity in the allowance for loan losses during the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,	
	2009	2008
Allowance for loan losses, beginning of period	\$	\$ 251,626,987
Provision for loan losses		262,420,799
Loans transferred to OREO		(4,273,245)
Loans charged off		(47,373,393)
Loans transferred to Huntington and loans exchanged for trust certificates and retained		
Loans transferred to loans held for sale		
Other, net		(31,980)
Allowance for loan losses, end of period	\$	\$ 462,369,168
	Six Months Ended June 30,	
	2009	2008
Allowance for loan losses, beginning of period	\$ 520,969,251	\$ 254,661,653
Provision for loan losses	169,479	267,587,175
Loans transferred to OREO	(6,517,919)	(6,713,115)
Loans charged off	(14,029,345)	(53,058,255)
Loans transferred to Huntington and loans exchanged for trust certificates and retained	(481,453,374)	
Loans transferred to loans held for sale	(17,435,075)	
Other, net	(1,703,017)	(108,290)
Allowance for loan losses, end of period	\$	\$ 462,369,168

Write-downs for declines in the estimated net realizable value of OREO resulted in a provision for loan losses of \$18.1 million and \$21.5 million during the three and six months ended June 30, 2008, which was not included in the above tables. As a result of the Restructuring and the exchange of loans and other real estate owned for trust certificates, and because, as of March 31, 2009, the Company is carrying its investments at fair value or lower of cost or market value, the allowance for loan losses was eliminated during the first quarter of 2009, and at June 30, 2009 was \$0.

Derivatives As part of the Company's interest-rate risk management process, we entered into interest rate cap agreements in 2006 and 2007, and interest rate swap agreements in 2008. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended and interpreted, derivative financial instruments are reported on the consolidated balance sheets at their fair value.

Interest rate caps are recorded at fair value. The interest rate caps are not designated as hedging instruments for accounting purpose, and unrealized changes in fair value are recognized in the period in which the changes occur and realized gains and losses are recognized in the period when such instruments are settled.

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Franklin's management of interest-rate risk predominantly includes the use of plain-vanilla interest-rate swaps to synthetically convert a portion of its London Interbank Offered Rate (LIBOR)-based variable-rate debt to fixed-rate debt. In accordance with SFAS 133, derivative contracts hedging the risks associated with expected future cash flows are designated as cash flow hedges. The Company formally documents at the inception of its SFAS 133 hedges all relationships between hedging instruments and the related hedged items, as well as its interest risk management objectives and strategies for undertaking various accounting hedges. Additionally, we use regression analysis at the inception of the hedge and for each reporting period thereafter to assess the derivative's hedge effectiveness in offsetting changes in the cash flows of the hedged items. The Company discontinues hedge accounting if it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in the fair value of the derivative in earnings. All of the Company's interest-rate swaps qualify for cash flow hedge accounting, and are so designated.

Effective April 30, 2008, the Company entered into \$275 million (notional amount) of fixed-rate interest-rate swaps in order to effectively stabilize the future interest payments on a portion of its interest-sensitive borrowings. The fixed-rate swaps are for a period of three years, are non-amortizing, and at a fixed rate of 3.47%. These swaps will reduce further the Company's exposure to future increases in interest costs on a portion of its borrowings due to increases in the one-month LIBOR. The interest-rate swaps were executed with the Company's lead lending bank. On March 5, 2009, \$220 million of one-year interest-rate swaps matured, which have not been replaced.

In conjunction with the Restructuring, and at the request of the Bank, effective March 31, 2009, the Company exercised its right to terminate two non-amortizing fixed-rate interest-rate swaps with the Bank, one with a notional amount of \$150 million and the other with a notional amount of \$240 million. The total termination fee for cancellation of the swaps was \$8.2 million, which is payable only to the extent cash is available under the waterfall provisions of the Legacy Credit Agreement, and only after the first \$837.9 million of debt owed to the Bank has been paid in full. The carrying value included in accumulated other comprehensive loss (AOCL) within stockholders' equity at December 31, 2008 related to the terminated hedges is amortized to earnings over time.

As of June 30, 2009, the notional amount of the Company's fixed-rate interest-rate swaps totaled \$390 million, representing approximately 31% of the Company's outstanding variable rate debt. The fixed-rate interest-rate swaps are expected to reduce the Company's exposure to future increases in interest costs on a portion of its borrowings due to increases in one-month LIBOR during the remaining terms of the swap agreements. All of our interest-rate swaps were executed with the Company's lead lending bank.

Changes in the fair value of derivatives designated as cash flow hedges, in our case the swaps, are recorded in AOCL within stockholders' equity to the extent that the hedges are effective. Any hedge ineffectiveness is recorded in current period earnings as a part of interest expense. If a derivative instrument in a cash flow hedge is terminated, the hedge designation is removed, or the hedge accounting criteria are no longer met, the Company will discontinue the hedge relationship.

As of January 1, 2009, the Company removed the hedge designations for its cash flow hedges. As a result, the Company will continue to carry the December 31, 2008 balance related to these hedges in AOCL unless it becomes probable that the forecasted cash flows will not occur. The balance in AOCL as of June 30, 2009 is amortized to earnings as part of interest expense in the same period or periods during which the hedge forecasted transaction affects earnings. During the three months ended June 30, 2009, the net impact of the cash flow hedges was an increase of \$2.8 million to interest expense, inclusive of \$3.7 million of amortization of the AOCL balance, reclassified from AOCL into earnings, and the cost of the hedges in the amount of \$2.9 million, which was somewhat offset by an increase of \$3.8 million in the fair value of the existing swaps. During the six months ended June 30, 2009, the net impact of the cash flow hedges was an increase of \$10.9 million to interest expense, inclusive of \$7.6 million of amortization of the AOCL balance and reclassified from AOCL into earnings, the cost of the hedges in the amount of \$8.0 million, somewhat offset by an increase of \$4.7 million in the fair value of the existing swaps. Future changes in the fair value of the remaining interest-rate swaps will be accounted for directly in earnings.

Table of Contents***Fair Value Measurements***

SFAS No. 157, *Fair Value Measurements*, establishes a three-tier hierarchy for fair value measurements based upon the transparency of the inputs to the valuation of an asset or liability and expands the disclosures about instruments measured at fair value. A financial instrument is categorized in its entirety and its categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are described below.

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair values are initially valued based upon transaction price and are adjusted to reflect exit values as evidenced by financing and sale transactions with third parties.

Fair values for over-the-counter interest rate contracts are determined from market observable inputs, including the LIBOR curve and measures of volatility, used to determine fair values are considered Level 2, observable market inputs.

Fair values for certain investments (Level 3 assets) are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The carrying value of derivative and financial instruments on the Company's financial statements at June 30, 2009 are as follows:

	Level 1	Level 2	Level 3	Level 3
Interest-rate swaps	\$	\$ (14,771,242)	\$	\$
Investment in REIT securities			472,413,331	
Investment in trust certificates			82,472,492	
Nonrecourse liability				(410,772,828)
Total	\$	\$ (14,771,242)	\$ 554,885,823	\$ (410,772,828)

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The changes in items classified as Level 3 during the six months ended June 30, 2009 are as follows:

Balance, January 1, 2009	\$	\$
Additions	623,602,529	(477,316,409)
Total recognized unrealized (losses)/gains	(54,753,531)	16,368,733
Transfer in/(out)	(5,625,114)	
Distributions/payments	(8,338,061)	50,174,828
Balance, June 30, 2009	\$ 554,885,823	\$ (410,772,828)

Unrealized losses included in earnings during the six months ended June 30, 2009 related to investments held at June 30, 2009 were \$54.8 million.

The carrying value of assets measured at the lower of cost or market value at June 30, 2009 are as follows:

	Level 1	Level 2	Level 3
Mortgage loans and real estate held for sale	\$	\$	\$ 410,772,828

Recent Developments**Unrestructured Debt**

On August 10, 2009, the forbearance period with respect to the Unrestructured Debt was extended from June 30, 2009 through and including September 30, 2009, and the Bank agreed to forbear, during the forbearance period, with respect to any defaults past or present with respect to any failure to make scheduled principal and interest payments to the Bank relating to the Unrestructured Debt. The Company, as directed by the Bank, has been actively seeking to sell the loans collateralizing the Unrestructured Debt and, subject to the Bank's approval of such sale, will attempt to have a sale completed on or before September 30, 2009.

Management has evaluated and disclosed recent developments up to and including August 14, 2009, which is the issuance date of the financial statements.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****General**

Safe Harbor Statements. Statements contained herein and elsewhere in this Quarterly Report on Form 10-Q that are not historical fact may be forward-looking statements regarding the business, operations and financial condition of Franklin Credit Holding Corporation (Franklin Holding, and together with its consolidated subsidiaries, the Company, we, us or our unless otherwise specified or the context otherwise requires) within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are subject to a variety of risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from those projected or suggested in forward-looking statements made by the Company. These factors include, but are not limited to: (i) unanticipated changes in the U.S. economy, including changes in business conditions such as interest rates, changes in the level of growth in the finance and housing markets, such as slower or negative home price appreciation; (ii) the Company's relations with the Company's lenders and such lenders' willingness to waive any defaults under the Company's agreements with such lenders; (iii) increases in the delinquency rates of the Company's borrowers, (iv) the availability of third parties holding subprime mortgage debt for servicing by the Company on a fee-paying basis; (v) changes in the statutes or regulations applicable to the Company's business or in the interpretation and enforcement thereof by the relevant authorities; (vi) the status of the Company's regulatory compliance; (vii) our ability to meet collection targets under the Legacy Credit Agreement in order to reduce the pledge of equity interest in FCMC from 70% to a minimum of 20%; and (viii) other risks detailed from time to time in the Company's Securities and Exchange Commission (SEC) reports and filings. Additional factors that would cause actual results to differ materially from those projected or suggested in any forward-looking statements are contained in the Company's filings with the Securities and Exchange Commission, including, but not limited to, those factors discussed under the captions Risk Factors, Interest Rate Risk and Real Estate Risk in the Company's Annual Report on Form 10-K and, if applicable, Quarterly Reports on Form 10-Q, which the Company urges investors to consider. The Company undertakes no obligation to publicly release the revisions to such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events, except as otherwise required by securities, and other applicable laws. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results on any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Application of Critical Accounting Policies and Estimate

The Company's significant accounting policies, as of December 31, 2008 are described in Note 2 to the December 31, 2008 consolidated financial statements filed on the Annual Report on Form 10-K. We identified notes receivable and income recognition, discounts on acquired loans, allowance for loan losses, originated loans held for investment, other real estate owned (OREO), and income taxes as the Company's most critical accounting policies and estimates. As of June 30, 2009, we have identified the continuing assessment of the fair value of the investment in (i) preferred and common stocks, or the REIT Securities, (ii) trust certificates, (iii) because for accounting purposes the Restructuring is being treated as a financing under SFAS 140, mortgage loans and real estate held for sale and the corresponding nonrecourse liability, and (iv) income taxes as the Company's most critical accounting policies and estimates. The following discussion and analysis of financial condition and results of operations is based on the amounts reported in our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In preparing the consolidated financial statements, management is required to make various judgments, estimates and assumptions that affect the financial statements and disclosures. Changes in these estimates and assumptions could have a material effect on our consolidated financial statements. Management believes that the estimates and judgments used in preparing these consolidated financial statements were the most appropriate at that time.

Table of Contents**Portfolio Characteristics****Overall Portfolio**

Due to the Restructuring and the exchange of loans and other real estate owned for trust certificates effective March 31, 2009, the Company no longer had portfolios of loans classified as held to maturity. Therefore, the tables that follow are only for December 31, 2008.

At December 31, 2008, our portfolio (excluding OREO) consisted of \$1.14 billion of notes receivable (inclusive of purchase discount not reflected on the face of the balance sheet) and \$395.2 million of loans held for investment. Throughout the Portfolio Characteristics section, unless otherwise indicated or required by the context of the description, all loan amounts refer to the unpaid principal balance (UPB). The following table sets forth information regarding the types of properties securing our loans.

Property Types	Unpaid Principal Balance	Percentage of Total Principal Balance
Residential 1-4 family	\$ 1,268,478,890	82.41%
Condos, co-ops, PUD dwellings	193,149,884	12.55%
Manufactured and mobile homes	15,135,861	0.98%
Multi-family	443,023	0.03%
Secured, property type unknown ⁽¹⁾	18,464,780	1.20%
Commercial	1,920,922	0.12%
Unsecured loans ⁽²⁾	41,678,994	2.71%
Total	\$ 1,539,272,354	100.00%

(1) The loans included in this category are principally small balance (less than \$10,000) second-lien loans acquired, and are collateralized by residential real estate.

(2) The loans included in this category are principally second-lien loans where the Company is aware that

residential real
estate collateral
has been
foreclosed by
the first-lien
holder.

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Geographic Dispersion. The following table sets forth information regarding the geographic location of properties securing the loans in our portfolio at December 31, 2008:

Location	Unpaid Principal Balance	Percentage of Total Principal Balance
California	\$ 226,583,453	14.72%
New York	172,713,267	11.22%
New Jersey	145,363,612	9.44%
Florida	136,181,054	8.85%
Pennsylvania	69,705,413	4.53%
Texas	69,656,734	4.53%
Maryland	50,994,311	3.31%
Ohio	50,792,987	3.30%
Illinois	49,072,979	3.19%
Michigan	43,731,150	2.84%
All Others	524,477,394	34.07%
Total	\$ 1,539,272,354	100.00%

Asset Quality

Delinquency. Because we specialized in acquiring and servicing loans with erratic payment patterns and an elevated level of credit risk, a portion of the loans we have acquired were in various stages of delinquency, foreclosure and bankruptcy when we acquired them. We monitor the payment status of our borrowers based on both contractual delinquency and recency delinquency, and as servicer for third parties we continue to do so. By contractual delinquency, we mean the delinquency of payments relative to the contractual obligations of the borrower. By recency delinquency, we mean the recency of the most recent full monthly payment received from the borrower. By way of illustration, on a recency delinquency basis, if the borrower has made the most recent full monthly payment within the past 30 days, the loan is shown as current regardless of the number of contractually delinquent payments. In contrast, on a contractual delinquency basis, if the borrower has made the most recent full monthly payment, but has missed an earlier payment or payments, the loan is shown as contractually delinquent. We classify a loan as in foreclosure when we determine that the best course of action to maximize recovery of unpaid principal balance is to begin the foreclosure process. We classify a loan as in bankruptcy generally when we receive notice of a bankruptcy filing from the bankruptcy court. We classify a previously delinquent or performing loan as modified when we have restructured the loan due principally to the borrower's deteriorated financial situation, and, as a condition to the closing of the modification, received at least one full monthly payment at the time of the closing of the modification. Modified loans are classified as current on both a contractual and recency basis at the time of the modification. As of December 31, 2008, principally all of our loan modifications consisted of the deferral of the past due and uncollected interest or a reduction in the interest rate. Interest rate reduction modifications generally are for a period of one year, and for rate reduction modifications of delinquent loans, also incorporate a deferral of the past due and uncollected interest. Approximately 20% of our modified loans as of December 31, 2008 were modified a second time due to the borrower's difficulty in making payments in accordance with the initial modification.

Approximately 85% of all loan modifications as of December 31, 2008 were performing loans that were delinquent on a contractual basis less than 90 days at the time of modification, including approximately 67% that were in a current status on a contractual basis and granted modifications based on our evaluation of the borrower's deteriorated financial situation.

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The following table provides a breakdown of the delinquency status of our notes receivable and loans held for investment as of December 31, 2008, by unpaid principal balance.

		December 31, 2008			
		Contractual Delinquency		Recency Delinquency	
	Days Past Due	Amount	%	Amount	%
Performing Current Delinquent	0 30 days	\$ 373,712,487	24.28%	\$ 419,653,369	27.26%
	31 60 days	30,511,251	1.98%	25,910,879	1.69%
	61 90 days	4,302,736	0.28%	21,390,383	1.39%
	90+ days	128,904,056	8.38%	70,475,899	4.58%
Modified Loans Delinquent	0 30 days	262,156,611	17.03%	299,215,550	19.44%
	31 60 days	46,097,510	2.99%	32,572,746	2.12%
	61 90 days	1,195,906	0.08%	15,542,772	1.01%
	90+ days	78,911,624	5.13%	41,030,583	2.66%
Bankruptcy Delinquent	0 30 days	26,527,458	1.72%	62,020,559	4.03%
	31 60 days	5,929,387	0.38%	10,264,968	0.67%
	61 90 days	1,644,545	0.11%	4,623,655	0.30%
	90+ days	90,762,522	5.90%	47,954,730	3.11%
Foreclosure Delinquent	0 30 days	2,575,557	0.16%	19,594,271	1.27%
	31 60 days	743,187	0.05%	7,639,599	0.50%
	61 90 days	123,808	0.01%	7,248,534	0.47%
	90+ days	485,173,709	31.52%	454,133,857	29.50%
Total		\$ 1,539,272,354	100.00%	\$ 1,539,272,354	100.00%
All current loans	0 30 days	\$ 664,972,113	43.20%	\$ 800,483,749	52.00%

Included in the foreclosure category are approximately \$189.4 million of loans for which the Company has proceeded to file a judgment action against the borrower on the note personally instead of seeking to foreclose on the related collateral. Approximately \$184.2 million of these loans are second-lien loans. Judgments have been obtained on approximately \$6.0 million of loans, of which approximately \$5.2 million are second-lien loans.

Included in the above table are second-lien mortgage loans in our notes receivable portfolio in the amount of \$754.1 million, of which \$334.3 million and \$371.9 million were current on a contractual and recency basis, respectively. The legal status composition of the second-lien mortgage loans at December 31, 2008 was: \$344.5 million, or 46%, are performing; \$110.9 million, or 15%, are modified due to delinquency or the borrower's financial difficulty; \$55.3 million, or 7%, are in bankruptcy; and, \$243.4 million, or 32%, are in foreclosure (including \$189.3 million where a judgment action has been filed against the borrower on the note personally or where judgments have been obtained). At December 31, 2008, \$29.3 million of the modified second-lien loans was delinquent on a contractual basis, while \$24.1 million of the modified second-lien loans was delinquent on a recency basis.

Table of Contents**Notes Receivable Portfolio**

Due to the Restructuring and the exchange of loans and other real estate owned for trust certificates effective March 31, 2009, the Company no longer had a notes receivable portfolio classified as held to maturity. Therefore, the tables that follow are only as of December 31, 2008.

At December 31, 2008, our notes receivable portfolio included approximately 22,817 loans with an aggregate UPB of \$1.14 billion. Impaired loans comprised a significant portion of our portfolio. Many of the loans we acquired were impaired loans at the time of purchase. We generally purchased such loans at discounts and considered the payment status, underlying collateral value and expected cash flows when determining our purchase price. While interest income generally was not accrued on impaired loans, interest and fees were received on a portion of loans classified as impaired. The following table provides a breakdown of the notes receivable portfolio by performing and impaired loans at December 31, 2008:

	December 31, 2008
Performing loans	\$ 528,953,209
Allowance for loan losses	130,724,698
Nonaccretable discount*	25,277,808
Total performing loans, net allowance for loan losses and nonaccretable discount	372,950,703
Impaired loans	615,159,200
Allowance for loan losses	340,368,461
Nonaccretable discount*	72,325,558
Total impaired loans, net allowance for loan losses and nonaccretable discount	202,465,181
Total notes receivable, net allowance for loan losses and nonaccretable discount	575,415,884
Accretable discount*	24,860,752
Total notes receivable, net allowance for loan losses and accretable/nonaccretable discount	\$ 550,555,132

* Represents purchase discount not reflected on the face of the balance sheet in accordance with SOP 03-3 for loans acquired after December 31,

2004.

Accretable

Discount is the excess of the loan's estimated cash flows over the purchase prices, which is accreted into income over the life of the loan.

Nonaccretable

Discount is the excess of the undiscounted contractual cash flows over the undiscounted cash flows estimated at the time of acquisition.

Changes in the allowance for loan losses and nonaccretable discount were principally the result of movement of loans between performing and impaired classifications.

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The following table provides a breakdown of the balance of our portfolio of notes receivable between fixed-rate and adjustable-rate loans, net of allowance for loan losses as of December 31, 2008.

	December 31, 2008
<i>Performing Loans:</i>	
Fixed rate	\$ 325,799,144
Adjustable rate	72,429,367
<i>Total Performing Loans</i>	\$ 398,228,511
<i>Impaired Loans:</i>	
Fixed rate	\$ 162,504,488
Adjustable rate	112,286,251
<i>Total Impaired Loans</i>	\$ 274,790,739
Total Notes	\$ 673,019,250
Accretable discount	\$ 24,860,752
Nonaccretable discount	\$ 97,603,366
Total Notes Receivable, net of allowance for loan losses	\$ 550,555,132

Impaired loans comprised a significant portion of the portfolio. Many of the loans we acquired were impaired loans at the time of purchase. We generally purchased such loans at discounts and considered the payment status, underlying collateral value and expected cash flows when determining our purchase price. While interest income generally was not accrued on impaired loans, interest and fees were received on a portion of loans classified as impaired.

Lien Position. The following table sets forth information regarding the lien position of the properties securing our portfolio of notes receivable at December 31, 2008:

Lien Position	December 31, 2008	
	Principal Balance	Percentage of Total Principal Balance
1 st Liens	\$ 390,020,158	34.09%
2 nd Liens	754,092,251	65.91%
Total	\$ 1,144,112,409	100.00%

Table of Contents**Other Real Estate Owned**

The following table sets forth our real estate owned, or OREO portfolio, and OREO sales during the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June		Six Months Ended June 30,	
	2009	30, 2008	2009	2008
Other real estate owned	\$	\$ 61,843,230	\$	\$ 61,843,230
OREO as a percentage of total assets		4.78%		4.78%
OREO sold (prior to the Restructuring)	\$	\$ 9,381,848	\$ 18,852,671	\$ 16,650,847
Gain on sale	\$	\$ 291,891	\$ 374,344	\$ 382,707

Due to the Restructuring effective March 31, 2009, any gains and losses on sales of OREO properties supporting the investment in trust certificates and mortgage loans and real estate properties held for sale are included in as fair valuation adjustments.

Results of Operation

Although the transfer of the trust certificates, representing approximately 83% of the Company's portfolio of subprime mortgage loans and owned real estate, to the REIT was structured in substance as a sale of financial assets, the transfer, for accounting purposes, is treated as a financing under SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. While Franklin transferred legal ownership and all of the economic interests and risks relating to the underlying assets of the trust certificates to the Bank in exchange for preferred and common stocks of the REIT, the transfer did not meet one of the technical requirements of SFAS 140 insofar as, for accounting purposes, the transferred assets have not been legally isolated from the Company and put presumptively beyond the reach of the Company and its creditors, even in bankruptcy. The treatment as a financing on the Company's balance sheet, however, did not affect the cash flows of the transfer, and does not affect the Company's cash flows or its reported net income nor would it, necessarily, dictate the treatment of the assets in a bankruptcy.

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Overview. The Company had net income of \$20.3 million for the second quarter of 2009, compared with a net loss of \$281.4 million for the second quarter of 2008. The principal driver of the \$301.7 million decrease in the net loss for the second quarter of 2009 was the restructured balance sheet that resulted from the Restructuring and the resultant write-down of the Company's loan portfolios to estimated fair value in the prior quarter. Exclusive of a nonrecurring gain on recoveries from contractual loan purchase rights in the aggregate amount of \$30.6 million received in the second quarter of 2009, the Company would have reported a net loss of approximately \$10 million.

Revenues increased by \$14.3 million to \$45.2 million for the three months ended June 30, 2009, from revenues of \$30.9 million for the three months ended June 30, 2008. The Company had net income per common share for the three months ended June 30, 2009 of \$2.53 both on a diluted and basic basis, compared to a net loss per share of \$35.26 on both a diluted and basic basis for the three months ended June 30, 2008. Our total debt outstanding decreased to \$1.37 billion at June 30, 2009 from \$1.44 billion at December 31, 2008, and from \$1.52 billion at June 30, 2008. Interest expense (inclusive of amortization of deferred financing costs, success fees and the cost of interest-rate swaps) decreased by \$1.8 million, or 9%, to \$17.4 million, during the three months ended June 30, 2009, from \$19.2 million during the three months ended June 30, 2008. Our average cost of funds, including the cost of the interest-rate swaps, during the three months ended June 30, 2009 decreased to 4.71% from 4.88% during the three months ended June 30, 2008. At June 30, 2009, the weighted average interest rate of borrowed funds was 3.92%. Collection, general and administrative expenses decreased by \$5.4 million, or 44%, to \$6.9 million during the three months ended June 30, 2009, from \$12.3 million for the same period in 2008. The provision for loan losses decreased by \$280.5 million to \$0 during the three months ended June 30, 2009. Stockholders' deficit increased by 72% to \$798.9 million at June 30, 2009, from stockholders' deficit of \$464.5 million at December 31, 2008.

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Revenues. Revenues increased by \$14.3 million to \$45.2 million during the second quarter of 2009, from revenues of \$30.9 million during the same period in 2008. Revenues include interest income, dividend income, purchase discount earned, gain on recovery of contractual loan purchase rights, fair valuation adjustments, gain on sale of OREO, and servicing fees and other income.

Interest income decreased by \$9.9 million, or 37%, to \$16.7 million during the three months ended June 30, 2009 from \$26.6 million during the three months ended June 30, 2008. The decrease in interest income reflected an approximate 79% increase in loans on nonaccrual due to increased serious delinquencies in the Company's loan portfolios and a change in the interest accrual policy, effective with the Restructuring, to accrue only one month of interest on performing loans (loans that are contractually current). Approximately \$1.23 billion of loans were on nonaccrual at June 30, 2009 compared with \$688.7 million at June 30, 2008, which caused a corresponding reduction in the amount of accrued interest on loans on accrual status during the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

Dividend income from the Investment in REIT securities, received in exchange for Trust Certificated transferred to the Bank's REIT on March 31, 2009, was \$10.6 million during the three months ended June 30, 2009. There was no dividend income during the same period last year.

There was no purchase discount earned during the second quarter of 2009 as purchase discount on loans acquired in past years was eliminated effective March 31, 2009 with the Restructuring. During the second quarter of 2008, purchase discount earned amounted to \$805,000.

Gain on recovery of contractual loan purchase rights amounted to \$30.6 million during the three months ended June 30, 2009. The gain was the result of proceeds received from contractual loan purchase rights during the three months ended June 30, 2009. There was no gain on recovery of contractual loan purchase rights in the three months ended June 30, 2008.

Fair valuation adjustments (fair value adjustments of the Investment in trust certificates and the Nonrecourse liability) amounted to a net loss of \$14.4 million for the three months ended June 30, 2009. Included in the fair valuation adjustments in the three months ended June 30, 2009 were a net increase in the valuation of \$16.4 million on the nonrecourse liability, a loss on OREO sold in the amount of \$11.6 million, a valuation write-down on OREO inventory of \$17.1 million and various other adjustments to the fair value in the amount of approximately \$2.1 million, net.

During the three months ended June 30, 2009, gains and losses on sales of OREO were reflected in the fair valuation adjustments line item. During the three months ended June 30, 2008, we realized a net gain of \$292,000 from the sales of 138 OREO properties with an aggregate carrying value of \$9.4 million.

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Servicing fees and other income (principally third-party subservicing fees, third-party acquisition services fees and late charges, prepayment penalties and other miscellaneous servicing revenues) decreased by \$1.5 million, or 46%, to \$1.7 million during the three months ended June 30, 2009 from \$3.2 million during the corresponding period last year. This decrease was principally the result of decreased recoveries of outside foreclosure attorney costs from delinquent borrowers, reduced late charges collected from delinquent borrowers, decreased prepayment penalties due to a continuing slower rate of loan payoffs, and the reversal of \$90,000 in administrative fees associated with services provided to Bosco by FCMC.

Operating Expenses. Operating expenses decreased by \$287.8 million, to \$24.5 million during the second quarter of 2009 from \$312.3 million during the same period in 2008. Total operating expenses include interest expense, collection, general and administrative expenses, provisions for loan losses, amortization of deferred financing costs and depreciation expense.

Interest expense decreased by \$1.8 million, or 9%, to \$17.1 million during the three months ended June 30, 2009, from \$18.9 million during the three months ended June 30, 2008. This decrease was the result of a lower average cost of funds during the three months ended June 30, 2009 of 4.71%, compared to 4.88% during the three months ended June 30, 2008, which was the result of the cost of interest-rate swaps. As of April 1, 2009, the Company had in place \$390 million (notional amount) of fixed-rate interest-rate swaps, intended to limit the negative effect of a rise in short-term interest rates by effectively stabilizing the future interest payments on a portion of its variable-rate debt. Because short-term interest rates actually declined in the months following the purchase of these swaps and due to the amortization of the AOCL balance relating to terminated interest-rate swaps, offset somewhat by an increase in the fair value of the swaps during the quarter ended June 30, 2009, the interest-rate swaps actually increased the Company's interest cost in the quarter ended June 30, 2009 by \$2.8 million. At June 30, 2009, the weighted average interest rate of our borrowed funds, exclusive of the effect of interest-rate swaps, was 3.92%, compared with 4.47% at June 30, 2008.

Collection, general and administrative expenses decreased by \$5.4 million, or 44%, to \$6.9 million during the three months ended June 30, 2009, from \$12.3 million during the corresponding period in 2008. The decrease in collection, general and administrative expenses was principally the result of a reduction in operating costs throughout the Company including decreased servicing costs due to a reduction of third party expenses incurred on servicing the Bank's portfolio of loans since, effective April 1, 2009 with the Restructuring, the Bank has directed the Company as servicer to limit certain third party costs and expenses that are reimbursed by the Bank. Salaries and employee benefits expenses decreased by \$974,000, or 22%, to \$3.4 million during the three months ended June 30, 2009, from \$4.4 million during the three months ended June 30, 2008, due to reductions in staff throughout the Company during the past 18 months, including the Company's cost-savings measures that took place in the beginning of April 2009 (across the board salary reductions and additional reductions in staff). The number of servicing employees decreased to 129 at June 30, 2009, from 143 employees at June 30, 2008. The Company ended the three months ended June 30, 2009 with 178 employees, compared with 210 employees at June 30, 2008. Legal fees relating to collection and loss mitigation activities decreased by \$1.2 million, or 49%, to \$1.2 million from \$2.5 million during the same period last year. This decrease principally reflected a reduction in outside legal service for foreclosure, bankruptcy and judgment activities for the delinquent loans in the portfolios serviced for the Bank, which under the terms of the Restructuring Agreements are reimbursed by the Bank. The Company also experienced a decrease in corporate legal expenditures of \$464,000, or 78%, to \$130,000 from \$594,000, as compared to the same three-month period last year. Servicing expenses related to the maintenance and management of OREO decreased by approximately \$538,000 to \$234,000 million during the three months ended June 30, 2009, from \$772,000 during the same three-month period last year, due to principally to the reduction in the OREO portfolio and reduced OREO servicing costs, due to reimbursement by the Bank for OREO serviced on behalf of the Trust, during the period. In addition, other third-party servicing expenses related to our collection, loss mitigation and deficiency operations decreased by \$395,000 to \$307,000 from \$702,000 for the three months ended June 30, 2008, primarily due to decreased third party vendor activity as directed by the Bank and reduced servicing costs and expenditures, due to reimbursement by the Bank for loans serviced on behalf of the Trust, during the period. Professional fees decreased by \$181,000, or 30%, to \$431,000 from \$612,000, principally due to decreased outside tax and audit fees, compared to the same period last year. Rent

expenses decreased by \$722,000 to \$302,000 for the three months ended June 30, 2009, due principally to the cost of a lease write-down of vacant office space during the second quarter of 2008. Various other general and administrative expenses decreased by approximately \$923,000 during the three months ended June 30, 2009, principally due to reduced costs throughout the Company's operations because the Company ceased to acquire and originate loans in November 2007 and the related reductions in the workforce.

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There was no provision for loan losses during the three months ended June 30, 2009, compared with a provision of \$280.5 million during the three months ended June 30, 2008. The absence of a provision for loan losses during the three months ended June 30, 2009 reflected the transfer of a significant portion of our portfolio of notes receivable, loans held for sale and OREO properties to the Bank on March 31, 2009 and the exchange and retention, principally in the form of trust certificates, of the remaining portion of our portfolio of notes receivable, loans held for sale and OREO properties as part of the Restructuring. As a result of the Restructuring and the exchange of the Company's loans and OREO assets for investments carried at either fair market value or lower of cost or market value, an allowance for loan losses is no longer necessary and the provision for loan losses effective March 31, 2009 was substantially eliminated.

Amortization of deferred financing costs decreased by \$30,000, or 9%, to \$289,000 during the second quarter of 2009 from \$318,000 during the second quarter of 2008. This decrease resulted primarily from a reduction in collections that culminated in a decrease in the pay down of our borrowed funds made in accordance with the terms of the Restructuring Agreements.

Depreciation expenses decreased by \$140,000, or 47%, to \$158,000 in the second quarter of 2009. This decrease during the three months ended June 30, 2009 was principally due to fully depreciated assets during the past twelve months and a reduction in assets purchased compared with the same quarterly period in 2008.

Our pre-tax loss decreased by \$302.1 million, from a loss of \$281.4 million during the three months ended June 30, 2008 to pre-tax net income of \$20.7 million during the three months ended June 30, 2009, for the reasons set forth above.

The Company recorded state income tax expense of \$433,000 on income from one of its subsidiary companies during the three months ended June 30, 2009. There was no provision for income taxes during the three months ended June 30, 2008.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Overview. The Company had a net loss of \$342.1 million for the first half of 2009, compared with a net loss of \$288.0 million for the first half of 2008. Revenues decreased by \$346.4 million to a loss of \$280.3 million for the six months ended June 30, 2009, from revenues of \$66.1 million for the six months ended June 30, 2008. The Company had a net loss per common share for the six months ended June 30, 2009 of \$42.78 both on a diluted and basic basis, compared to a net loss per common share of \$36.10 on both a diluted and basic basis for the six months ended June 30, 2008. Nevertheless, because of the Company's restructured balance sheet that resulted from the March 31, 2009 Restructuring and the resultant write-down of the Company's loan portfolios to estimated fair value in the prior quarter, the Company had a significantly reduced loss in the second quarter of 2009. In addition, during the six months ended June 30, 2009, the Company realized nonrecurring gain on net recoveries from contractual loan purchase rights in the aggregate amount of \$30.6 million. Effective March 31, 2009, as part of the Restructuring Agreements with its Bank, the Company incurred a loss of \$282.6 million in the 2009 first quarter on the transfer of assets. In addition, the Company recognized a loss of \$62.7 million on the valuation of the remaining investments on the Company's balance sheet, approximately 17% of its portfolio of loans and real estate assets transferred to a trust in exchange for trust certificates and the remaining loans not subject to the Restructuring.

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Our total debt outstanding decreased to \$1.37 billion at June 30, 2009 from \$1.44 billion at December 31, 2008, and from \$1.52 billion at June 30, 2008. Interest expense (inclusive of amortization of deferred financing costs and success fees) decreased by \$7.1 million, or 17%, including the cost of the interest-rate swaps, during the first half of 2009 compared with the same period in 2008. Our average cost of funds, including the cost of the interest-rate swaps, during the six months ended June 30, 2009 decreased to 4.83% from 5.29% during the six months ended June 30, 2008. At June 30, 2009, the weighted average interest rate of borrowed funds was 3.92%. Collection, general and administrative expenses increased by \$3.7 million, or 17%, to \$25.6 million during the six months ended June 30, 2009, from \$21.9 million for the same period in 2008. The provision for loan losses decreased by \$289.0 million to \$170,000 during the six months ended June 30, 2009. Stockholders' deficit increased by 72% to \$798.9 million at June 30, 2009, from stockholders' deficit of \$464.5 million at December 31, 2008.

Revenues. Revenues decreased by \$346.4 million from \$66.1 million during the six months ended June 30, 2008, to a loss of \$280.3 million during the first half of 2009. Revenues include interest income, dividend income, purchase discount earned, gain on recovery of contractual loan purchase rights, loss on mortgage loans and real estate held for sale, loss on valuation of trust certificates, notes receivable held for sale and nonrecourse liability, fair valuation adjustments, gain on sale of OREO and servicing fees and other income.

Interest income decreased by \$25.8 million, or 44%, to \$33.1 million during the six months ended June 30, 2009 from \$58.9 million during the six months ended June 30, 2008. The decrease in interest income reflected an approximate 79% increase in loans on nonaccrual due to increased serious delinquencies in the Company's loan portfolios and a change in the interest accrual policy effective with the Restructuring, to accrue only one month of interest on performing loans (loans that are contractually current). Approximately \$1.23 billion of loans were on nonaccrual at June 30, 2009 compared with \$688.7 million at June 30, 2008, which caused a corresponding reduction in the amount of accrued interest on loans on accrual status during the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

Dividend income from the Investment in REIT securities, received in exchange for Trust Certificated transferred to the Bank's REIT on March 31, 2009, was \$10.6 million during the six months ended June 30, 2009. There was no dividend income during the same period last year.

Purchase discount earned decreased by \$1.2 million, or 75%, to \$392,000 during the first half of 2009 from \$1.6 million during the first half of 2008. This decrease was the result of the elimination of the remaining balance of purchase discount on March 31, 2009 effective with the Restructuring, and, therefore there was no purchase discount remaining to be earned during the second quarter of 2009.

Gain on recovery of contractual loan purchase rights amounted to \$30.6 million during the six months ended June 30, 2009. The gain was the result of proceeds received from contractual loan purchase rights during the three months ended June 30, 2009. There was no gain on recovery of contractual loan purchase rights in the six months ended June 30, 2008.

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Loss on mortgage loans and real estate held for sale was \$282.6 million during the three months ended March 31, 2009. On March 31, 2009, the Company transferred its trust certificates in the Trust having a carrying value approximating \$759.9 million, representing approximately 83% of the trust certificates (representing the Company's loans and OREO assets previously transferred to the Trust), in exchange for preferred and common stock in Huntington's REIT (REIT Securities) with a fair market value approximating \$477.3 million. Because the transfer of the trust certificates has been accounted for as a secured financing in accordance with SFAS No. 140 (based on the assertion that the transferred assets have not been legally isolated from the Company and put presumptively beyond the reach of the Company and its creditors, even in bankruptcy), the mortgage loans and real estate remain on the Company's balance sheet classified as mortgage loans and real estate held for sale securing the nonrecourse liability in an equal amount. The loss, therefore, represented the application of fair market value accounting that resulted in a write-down to fair market value. Included in the realized loss from the March 31, 2009 exchange was a charge-off of accrued interest on the loans exchanged in the amount of \$8.6 million that was not collected as part of the Restructuring.

Loss on valuation of investment in trust certificates, mortgage loans and real estate held for sale was \$62.7 million during the six months ended June 30, 2009. At March 31, 2009 effective with the Restructuring, the retained trust certificates in the Trust with a book value of approximately \$151.2 million, representing approximately the remaining 17% of the Company's loans and OREO assets, exclusive of the assets collateralizing the Unrestructured Debt, were classified as available for sale and fair market value accounting was applied that resulted in a write-down to fair market value approximating \$95.8 million. The loans collateralizing the Unrestructured Debt with a carrying value of \$11.4 million were classified as held for sale and adjusted to approximate the fair market value of \$4.1 million, which resulted in a realized a loss of \$7.3 million.

Fair valuation adjustments (fair value adjustments of the investment in trust certificates and the nonrecourse liability) amounted to a net loss of \$14.4 million for the three months ended June 30, 2009. Included in the fair valuation adjustments in the three months ended June 30, 2009 were a net increase of \$16.4 million in the valuation on the nonrecourse liability, a loss on OREO sold in the amount of \$11.6 million, a valuation write-down on OREO and various other adjustments to the fair value in the amount of approximately \$2.1 million, net.

Gain on sale of OREO decreased by \$8,000, or 2%, to \$374,000 during the six months ended June 30, 2009, from \$383,000 during the six months ended June 30, 2008. We sold 198 OREO properties with an aggregate carrying value of \$18.9 million during the first half of 2009, as compared to 221 OREO properties with an aggregate carrying value of \$16.7 million during the first half of 2008. During the three months ended June 30, 2009, gains and losses on sales of OREO were reflected in fair valuation adjustments.

Servicing fees and other income (principally third-party subservicing fees, third-party acquisition services fees and late charges, prepayment penalties and other miscellaneous servicing revenues) decreased by \$971,000, or 19%, to \$4.2 million during the six months ended June 30, 2009 from \$5.2 million during the corresponding period last year. This decrease was principally the result of decreased recoveries of outside foreclosure attorney costs from delinquent borrowers, reduced late charges collected from delinquent borrowers, decreased prepayment penalties due to a continuing slower rate of loan payoffs, and the reversal of \$90,000 in administrative fees associated with services provided on the Bosco portfolio by FCMC.

Operating Expenses. Operating expenses decreased by \$292.7 million, or 83%, to \$61.3 million during the first half of 2009 from \$354.0 million during the same period in 2008. Total operating expenses include interest expense, collection, general and administrative expenses, provisions for loan losses, amortization of deferred financing costs and depreciation expense.

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Interest expense decreased by \$7.0 million, or 17%, to \$34.8 million during the six months ended June 30, 2009, from \$41.8 million during the six months ended June 30, 2008. This decrease was the result of a lower average cost of funds during the six months ended June 30, 2009 of 4.83%, compared to 5.29% during the six months ended June 30, 2008, reflecting the restructuring of the interest rate terms on our debt and a decline of about 215 basis points in one-month LIBOR since June 30, 2008, which was offset somewhat by the cost of interest-rate swaps and a decrease of our total debt. On February 27, 2008, the Company entered into \$725 million (notional amount) of fixed-rate interest-rate swaps, and on April 30, 2008, the Company entered into an additional \$275 million (notional amount) of fixed-rate interest-rate swaps, in order to limit the negative effect of a rise in short-term interest rates by effectively stabilizing the future interest payments on a portion of its variable-rate debt. As of April 1, 2009, due to swap maturities and early terminations, the Company had in place \$390 million (notional amount) of fixed-rate interest-rate swaps. Because short-term interest rates actually declined in the months following the purchase of these swaps and due to the amortization of the AOCL balance relating to terminated interest-rate swaps, offset somewhat by an increase in the fair value of the swaps in the second quarter of 2009, the interest-rate swaps actually increased the Company's interest cost in the six months ended June 30, 2009 by \$10.9 million. At June 30, 2009, the weighted average interest rate of our borrowed funds, exclusive of the effect of the interest-rate swaps, was 3.92%, compared with 4.47% at June 30, 2008.

Collection, general and administrative expenses increased by \$3.7 million, or 17%, to \$25.6 million during the six months ended June 30, 2009, from \$21.9 million during the corresponding period in 2008. The increase in collection, general and administrative expenses was principally the result of the costs of the Restructuring and increased servicing costs due to increased delinquencies and defaults in our loan portfolio. These increased costs were somewhat offset by a reduction in operating costs throughout the Company and a decrease in certain third party servicing costs due a reduction of third party expenses incurred on servicing the Bank's portfolio of loans since, effective April 1, 2009 with the Restructuring, the Bank has directed the Company as servicer to limit certain third party costs. Total restructuring costs were \$5.5 million during the six months ended June 30, 2009 and represented principally outside legal and consulting expenses, including reimbursement of costs incurred by Huntington in accordance with the Restructuring Agreements. Salaries and employee benefits expenses decreased by \$418,000, or 5%, to \$8.3 million during the six months ended June 30, 2009, from \$8.7 million during the six months ended June 30, 2008, due to reductions in staff throughout the Company during the past 18 months, including the Company's cost-savings measures that took place in the beginning of April 2009 (including across the board salary reductions and additional reductions in staff). The number of servicing employees decreased to 129 at June 30, 2009, from 143 employees at June 30, 2008. The Company ended the six months ended June 30, 2009 with 178 employees, compared with 210 employees at June 30, 2008. Legal fees relating to collection and loss mitigation activities decreased by \$1.0 million, or 23%, to \$3.3 million from \$4.3 million during the same period last year. This decrease principally reflected the reduced servicing costs, which are now reimbursed by the Bank, and decreased outside legal services for foreclosure, bankruptcy and judgment activities for the delinquent loans in the portfolios serviced for the Bank during the second quarter of 2009. The Company also experienced an increase in corporate legal expenditures not directly related to the Restructuring of \$416,000, or 45%, to \$1.3 million from \$1.0 million, principally related to a nonrecurring matter, as compared to the same six-month period last year. Servicing expenses related to the maintenance and management of OREO increased by approximately \$496,000 to \$1.8 million during the six months ended June 30, 2009, from \$1.3 million during the same six-month period last year, primarily due to the payments of all outstanding property taxes in the first quarter of 2009 in accordance with the Restructuring and reduced OREO servicing costs, due to reimbursement by the Bank for OREO serviced on behalf of the Trust, during the second quarter of 2009. In addition, other third-party servicing expenses

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related to our collection, loss mitigation and deficiency operations increased by \$906,000 to \$2.3 million from \$1.4 million for the six months ended June 30, 2008, primarily due to an increase in the volume of properties placed on our force-placed insurance policy related to the continued deterioration of our loan portfolios and the re-title and transfer of all of our OREO properties between subsidiaries and/or transferred to the Trust as part of the Restructuring. This increase was somewhat offset by decreased third party vendor activity as directed by the Bank effective April 1, 2009 and reduced servicing costs, due to reimbursement by the Bank for loans and OREO serviced on behalf of the Trust, during the second quarter ended June 30, 2009. Professional fees decreased by \$133,000, or 12%, to \$1.0 million from \$1.1 million, principally due to a decrease in outside tax and audit fees, compared to the same period last year. Rent expenses decreased by \$793,000 to \$598,000 for the six months ended June 30, 2009, due principally to the cost of a lease write-down of vacant office space during the second quarter of 2008. Various other general and administrative expenses decreased by approximately \$1.3 million during the six months ended June 30, 2009, principally due to reduced costs throughout the Company's operations because the Company ceased to acquire and originate loans in November 2007 and the related reductions in the workforce.

The provision for loan losses decreased by \$289.0 million, to \$169,000 during the six months ended June 30, 2009, from \$289.1 million during the six months ended June 30, 2008. This decrease reflected the transfer of a significant portion of our portfolio of notes receivable, loans held for sale and OREO properties to the Bank on March 31, 2009 and the exchange and retention, principally in the form of trust certificates, of the remaining portion of our portfolio of notes receivable, loans held for sale and OREO properties as part of the Restructuring. As a result of the Restructuring and the exchange of the Company's loans and OREO assets for investments carried at either fair market value or lower of cost or market value, an allowance for loan losses is no longer necessary and the provision for loan losses effective March 31, 2009 was substantially eliminated.

Amortization of deferred financing costs decreased by \$119,000, or 21%, to \$455,000 during the first half of 2009 from \$574,000 during the first half of 2008. This decrease resulted primarily from a reduction in collections that resulted in a decrease in the pay down of our borrowed funds and in accordance with the terms of the Restructuring Agreements.

Depreciation expenses decreased by \$300,000, or 49%, to \$315,000 in the first half of 2009. This decrease during the six months ended June 30, 2009 was principally due to fully depreciated assets during the past twelve months and a reduction in assets purchased compared with the same six-month period in 2008.

Our pre-tax loss increased by \$53.7 million to a loss of \$341.7 million during the six months ended June 30, 2009, from a loss of \$288.0 million during the six months ended June 30, 2008 for the reasons set forth above.

The Company recorded state income tax expense of \$433,000 on income from one of its subsidiary companies during the six months ended June 30, 2009. There was no provision for income taxes during the six months ended June 30, 2008.

Table of Contents**Franklin Credit Management Corporation (FCMC)**

As a result of the Restructuring and the corporate reorganization that took effect December 19, 2008, FCMC, the Company's servicing entity within the Franklin group of companies has positive net worth and 30% of its equity free from the pledges to the Bank. At June 30, 2009, FCMC had total assets of \$29.7 million and had stockholders' equity of \$19.2 million. At December 31, 2008, FCMC's total assets amounted to \$40.4 million and its stockholders' equity was \$15.7 million. FCMC recognized net income of approximately \$2.2 million and \$3.5 million, respectively, for the three and six months ended June 30, 2009, principally from servicing for the Bank and Bosco loans and other real estate owned. The net income recognized during the three months ended March 31, 2009 was principally the result of servicing for its sister companies the portfolio of loans and real estate owned. The inter-company servicing revenues allocated to FCMC during the first quarter of 2009 were based principally on the servicing contract entered into as part of the Restructuring, which became effective on March 31, 2009, and internal company allocations of operating expenses. Inter-company allocations and cash servicing revenues received from the Bank during the second quarter of 2009 have been eliminated in deriving the Consolidated Financial Statements of Franklin. Servicing revenues were eliminated in the Consolidated Financial Statements of Franklin due to the accounting treatment for the transfer of the trust certificates as a financing under SFAS 140.

From the perspective of the Company and its stockholders, the Restructuring provided for the release of thirty percent of the equity in FCMC, 10 percent of which has been transferred to the Company's principal stockholder, Thomas J. Axon, from the Company's pledges to the Bank in respect of its Legacy Credit Agreement. The Legacy Credit Agreement also provides for the possibility of release of up to an additional fifty percent (of which a maximum of ten percent would go to Thomas J. Axon), based upon the Bank's receipt of the agreed amounts of net remittances from the Portfolio, summarized below (the "Net Remittances"), from March 31, 2009, the effective date of the Legacy Credit Agreement (the "Legacy Effective Date"), through the term of the Legacy Credit Agreement pursuant to and in accordance with the schedule of collection levels identified in the Legacy Credit Agreement. See "Management's Discussion and Analysis - Borrowings - Restructuring Agreements with Lead Lending Bank."

During the twelve month period ending March 31, 2010, the minimum amount of Net Remittances, referred to as Level I, to achieve release of an additional 10% of pledged equity interest, from 70% to 60%, is \$225 million. During the three months ended June 30, 2009, the Company collected in aggregate approximately \$93.8 million from loans and real estate owned serviced for the Bank, of which \$30.6 million was received from contractual loan purchase rights. Net Remittances, as defined in the Legacy Credit Agreement essentially as collections less expenses incurred by the Bank related to the Company's servicing of the Bank's loans and real estate owned, amounted to approximately \$78.9 million. The balance of Net Remittances remaining, over the next nine month period ending March 31, 2010, therefore, to meet the Level I minimum is approximately \$146 million.

Liquidity and Capital Resources**General**

We ceased to acquire and originate loans in November 2007, and under the terms of the Restructuring Agreements, the Company cannot originate or acquire mortgage loans or other assets without the prior consent of the bank. As of June 30, 2009, we had one limited source of external funding to meet our liquidity requirements, in addition to the cash flow provided from servicing loans and performing due diligence services for third parties, dividends from preferred stock in a REIT owned by a Huntington subsidiary, and borrower payments of interest and principal from the notes receivable held for sale and the mortgage loans collateralizing the owned trust certificates. See "Borrowings." We are required to submit all payments we receive from our preferred stock investment, the trust certificates that we own and the notes receivable held for sale to a lockbox, which is controlled by the Bank. Substantially all amounts submitted to the lockbox are used to pay down amounts outstanding under our Legacy Credit Agreement with the Bank. If the cash flow received from servicing loans and performing due diligence services for third parties is insufficient to sustain the cost of operating our business, and we have fully utilized our licensing credit facilities, there is no guarantee that we can continue in business.

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Short-term Investments. The Company's investment policy is structured to provide an adequate level of liquidity in order to meet normal working capital needs, while taking minimal credit risk. As of June 30, 2009, all of the Company's unrestricted cash was invested in money market accounts and certificates of deposits held at The Huntington National Bank.

Cost of Funds. As of June 30, 2009, we had total borrowings of \$1.37 billion, of which \$1.33 billion was subject to the Restructuring Agreements and \$40.2 million remained under the original credit facility with the Bank (the Unrestructured Debt). Substantially all of the debt under these facilities was incurred in connection with the purchase and origination of loans prior to November 2007, and as of June 30, 2009 is secured by the REIT Securities, trust certificates, cash and certain other assets, including 70% of the equity interests in FCMC and 100% of the equity interests in all other direct and indirect subsidiaries of Franklin Holding. However, the assets of our servicing subsidiary, FCMC (other than an office condominium unit, on which the Bank has a first lien, and cash collateral held as security under the Licensing Credit Agreement, on which the Bank has a second priority lien), are not pledged as collateral for such debt. At June 30, 2009, the interest rates on our term debt (Notes payable) were as follows:

	In accordance with the terms of the Restructuring Agreements	Under the terms of the Forbearance Agreements and credit agreement excluded from the Restructuring Agreements
FHLB 30-day LIBOR advance rate plus 2.60%	\$	\$ 16,278,232
FHLB 30-day LIBOR advance rate plus 2.75%		23,970,620
LIBOR plus 2.25%	787,485,730	
LIBOR plus 2.75%	409,681,025	
15.00%	129,746,339	
	\$ 1,326,913,094	\$ 40,248,852

At June 30, 2009, the weighted average interest rate on term debt was 3.92%.

Cash Flow from Operating, Investing and Financing Activities

Liquidity represents our ability to obtain adequate funding to meet our financial obligations. As of June 30, 2009, our liquidity position is affected principally by the collections from servicing the trust certificates and the dividends received from the preferred stock investment in the Huntington subsidiary REIT.

At June 30, 2009, we had cash and cash equivalents of \$13.3 million compared with \$21.4 million at December 31, 2008. Restricted cash of \$1.3 million and \$27.9 million at June 30, 2009 and December 31, 2008, respectively, was restricted under our credit agreements and lockbox facility with our bank.

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Until March 31, 2009, substantially all of our assets were invested in our portfolios of notes receivable, loans held for investment, OREO and loans held for sale. Primary sources of our cash flow for operating and investing activities had been borrowings under our various credit facilities, collections of interest and principal on notes receivable and loans held for investment and proceeds from sales of notes and OREO properties, and from time to time, sales of our newly originated loans that generally were held for investment. Primary uses of cash included purchases of notes receivable, originations of loans and for operating expenses. We relied significantly upon our lender and the other banks that participated in the loans made to us by our lender to provide the funds necessary for the purchase of notes receivable portfolios and the origination of loans. We ceased to acquire and originate loans in November 2007, and under the terms of the Restructuring Agreements, we are expressly prohibited from acquiring or originating mortgage loans or other assets without the prior consent of the bank.

Net cash provided by operating activities was \$63.7 million during the six months ended June 30, 2009, compared with cash used of \$5.2 million during the six months ended June 30, 2008. The increase in cash provided by operating activities during the six months ended June 30, 2009 was primarily due to principal collections on mortgage loans held for sale and proceeds from the sale of real estate held for sale during the period. These increases were only partially offset by decreases in accounts payable and accrued expenses during the period.

Net cash provided by investing activities was \$62.5 million in the six months ended June 30, 2009, compared to \$110.9 million of cash provided in the six months ended June 30, 2008. The decrease in cash provided by investing activities during the six months ended June 30, 2009 was due primarily to reductions in principal collections on both notes receivable and loans held for investment, which was partially offset by an increase in the use of restricted cash, which was used to settle the cash related to the Restructuring.

Net cash used in financing activities was \$134.3 million during the six months ended June 30, 2009, compared to \$109.4 million used during the six months ended June 30, 2008. The increase in cash used in financing activities during the six months ended June 30, 2009 was due to the pay-down of the nonrecourse liability, which was the result of the principal collections on mortgage loans held for sale and proceeds from the sale of real estate held for sale, which was partially offset by reductions in principal payments of notes payable.

Borrowings

As of June 30, 2009, the Company owed an aggregate of \$1.37 billion under the Restructuring Agreements and one remaining credit facility excluded from the Restructuring Agreements (the Unrestructured Debt) with our lender. These borrowings are shown in the Company's financial statements as Notes payable (referred to as term loans herein).

Restructuring Agreements with Lead Lending Bank

Prior to the March 31, 2009 Restructuring Agreements that we entered into with Huntington, our indebtedness was governed by forbearance agreements and prior credit and warehousing agreements with Huntington. As of June 30, 2009, all of our borrowings, with the exception of the Unrestructured Debt in the amount of \$40.2 million, are governed by credit agreements entered into as part of the Restructuring Agreements. For information regarding all credit agreements in place prior to March 31, 2009 please see the Company's Form 10-K for the year 2008.

Table of Contents**March 2009 Restructuring**

On March 31, 2009, Franklin Holding, and certain of its direct and indirect subsidiaries, including Franklin Credit Management Corporation (FCMC) and Tribeca Lending Corp. (Tribeca), entered into a series of agreements (collectively, the Restructuring Agreements) with The Huntington National Bank (the Bank), successor by merger to Sky Bank, pursuant to which the Company's loans, pledges and guarantees with the Bank and its participating banks were substantially restructured, and approximately 83% of the Company's portfolio of subprime mortgages was transferred to Huntington Capital Financing, LLC (the REIT), a real estate investment trust wholly-owned by the Bank (the Restructuring). In connection with the Restructuring, the Company has engaged in a number of cost savings measures that should result in improved financial performance of FCMC.

The Restructuring did not include a portion of the Company's debt (the Unrestructured Debt), which as of March 31, 2009 totaled approximately \$40.7 million. The Unrestructured Debt remains subject to the original terms of the Franklin forbearance agreement entered into with the Bank in December 2007 and subsequent amendments thereto (the Franklin Forbearance Agreement) and the Franklin 2004 master credit agreement. On April 20, 2009, Franklin Holding, and certain of its direct and indirect subsidiaries, including FCMC and Franklin Credit Asset Corporation (Franklin Asset) entered into an amendment of the Franklin Forbearance Agreement and Franklin 2004 master credit agreement (the Amendment) with the Bank relating to the Unrestructured Debt. Under the Amendment, the forbearance period with respect to the Unrestructured Debt was extended from May 15, 2009 to June 30, 2009, and the Bank agreed to forbear, during the forbearance period, with respect to any defaults past or present with respect to any failure to make scheduled principal and interest payments to the Bank (Identified Forbearance Default) relating to the Unrestructured Debt. On August 10, 2009, the forbearance period with respect to the balance of approximately \$40.2 million of Unrestructured Debt was further extended from June 30, 2009 through and including September 30, 2009. During the forbearance period, the Bank, absent the occurrence and continuance of a forbearance default other than an Identified Forbearance Default, will not initiate collection proceedings or exercise its remedies in respect of the Unrestructured Debt or elect to have interest accrue at the stated rate applicable after default. In addition, FCMC is not obligated to the Bank with respect to the Unrestructured Debt and that any references to FCMC in the Franklin 2004 master credit agreement governing the Unrestructured Debt have been amended to refer to Franklin Asset. Upon expiration of the forbearance period, in the event that the Unrestructured Debt with the Bank remains outstanding, the Bank, with notice, could call an event of default under the Legacy Credit Agreement. The Licensing Credit Agreement and the Servicing Agreement do not include cross-default provisions that would be triggered by such a default. The Bank's recourse in respect of the Legacy Credit Agreement is limited to the assets and stock of Franklin Holding's subsidiaries, excluding the assets of FCMC (except for a first lien of the Bank on an office condominium unit and a second priority lien of the Bank on cash collateral held as security under the Licensing Credit Agreement) and the unpledged portion of FCMC's stock.

The Franklin forbearance agreement and the Tribeca forbearance agreement (together, the Forbearance Agreements) that had been entered into with the Bank were, except for approximately \$40.2 million of the Company's debt, replaced effective March 31, 2009 by the Restructuring Agreements.

In conjunction with the Restructuring, and at the request of the Bank, effective March 31, 2009, the Company exercised its right to terminate two non-amortizing fixed-rate interest-rate swaps with the Bank, one with a notional amount of \$150 million and the other with a notional amount of \$240 million. The total termination fee for cancellation of the swaps was \$8.2 million, which is payable only to the extent cash is available under the waterfall provisions of the Legacy Credit Agreement, and only after the first \$837.9 million of debt has been paid in full. The Company has other non-amortizing fixed-rate interest-rate swaps with the Bank, which were not terminated.

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On June 25, 2009, also in connection with the Restructuring and with the approval of the holders of more than two-thirds of the shares of Franklin Holding entitled to vote at an election of directors, the Certificate of Incorporation of FCMC was amended to delete the provision, adopted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware in connection with the Company's December 2008 corporate reorganization, that had required the approval of the stockholders of Franklin Holding in addition to the stockholders of FCMC for any action or transaction, other than the election or removal of directors, that would require the approval of the stockholders of FCMC.

Background. The severe deterioration in the U.S. housing market and the nearly complete shutdown of the mortgage credit market for borrowers without excellent credit histories, and more recently the severe economic slowdown and rapidly rising unemployment, severely degraded the value of the portfolio of subprime 1-4 family mortgage loans and assets acquired and originated by the Company (the Portfolio), particularly its second-lien mortgage loans, and resulted in increased delinquencies, provisions for loan losses and operating losses, and decreased cash flows, during the past two years. The impact on the Company's operations has been severe, and has included:

- a substantial and growing shortfall in cash collections from the Portfolio relative to the Company's debt service obligations owed to the Bank;

- a substantial and growing shortfall in the value of the Company's assets, relative to the amounts owed to the Bank under the facility agreements for the Company's outstanding debt with the Bank;

- concern by potential servicing customers and other constituencies over the continued viability of the Company in its current form, including the viability of FCMC, the Company's servicing platform;
- concern that the Bank was increasingly likely to:

 - cease granting necessary waivers and forbearances with respect to Company defaults under the Company's various credit facilities; and

 - declare a default with respect to the credit facilities and foreclose on the assets of the Company, substantially all of which were pledged to the Bank, especially in light of communications from the Bank indicating that it was seeking greater and more direct control over the collection guidelines related to the assets in the Portfolio and may have needed to foreclose on the Portfolio if it were not able to consummate a transaction like the Restructuring in which it was able to gain control over the Portfolio while keeping the credit facilities outstanding. Such a foreclosure would have left no value for the Company's stockholders.

In order to address these issues, accommodate the concerns of the Bank to take advantage of what the Company believes is the best option to preserve value for its stockholders, the Company negotiated and entered into the Restructuring, which was approved by the Company's Board of Directors.

Summary. Key attributes of the Restructuring, as they relate to the Company's legacy indebtedness to the Bank include:

- in exchange for the transfer of that part of the Portfolio underlying the Bank Trust Certificates (as defined below), the Company received common membership interests and Class C preferred membership interests in the REIT having in the aggregate a value intended to approximate the fair market value of that portion of the Portfolio transferred to the Bank, which as of March 31, 2009 was approximately \$477.3 million (the REIT Securities). The preferred membership interests have a liquidation value of \$100,000 per unit and an annual cumulative dividend rate of 9% of such liquidation value. Any dividends on the preferred shares shall be payable only out of funds legally available for the payment thereof;

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principal and interest payments in respect of the Legacy Credit Agreement are only due and payable to the extent of cash flow of the Company, which cash flow would include dividends declared and paid in respect of the REIT Securities or any other assets of the Company, other than the retained interest in FCMC (as discussed below); and

the Bank's recourse in respect of the Legacy Credit Agreement is limited to the assets and stock of Franklin Holding's subsidiaries, excluding the assets of FCMC (except for a first lien of the Bank on an office condominium unit and a second priority lien of the Bank on cash collateral held as security under the Licensing Credit Agreement) and a portion of FCMC's stock, representing not less than twenty percent and not more than seventy percent of FCMC's common equity, based on the amounts received by the Bank from the cash collections from FCMC's servicing of the Portfolio as discussed in more detail below. Under the terms and conditions of the Restructuring Agreements, FCMC may pay dividends or other distributions in respect of its capital stock if FCMC delivers to the Bank a payment to be applied to outstanding obligations under the Legacy Credit Agreement equal to seventy percent of any such distribution or dividend that FCMC elects to make or declare, which percentage share may be reduced to twenty percent based upon the Bank's receipt of the agreed amounts of net remittances from the Portfolio summarized below.

From the perspective of the Company and its stockholders, the Restructuring accomplished a number of overarching objectives, including:

release of thirty percent of the equity in FCMC, 10 percent of which has been transferred to the Company's principal stockholder, Thomas J. Axon, from the Company's pledges to the Bank in respect of its Legacy Credit Agreement, with the possibility of release of up to an additional fifty percent (of which a maximum of ten percent would go to Thomas J. Axon), based upon the Bank's receipt of the agreed amounts of net remittances from the Portfolio, summarized below (the "Net Remittances"), from March 31, 2009, the effective date of the Legacy Credit Agreement (the "Legacy Effective Date"), through the term of the Legacy Credit Agreement; the Bank shall reduce its interest in the equity in FCMC, as collateral, in accordance with the following collection levels:

Level	Minimum Amount of Net Remittances (Minimum Level Amount)	Time Period	Release of Equity Interests
Level 1	\$ 225 million	1 year from the Legacy Effective Date	10% (70% reduces to 60%)
Level 2	\$ 475 million	3 years from the Legacy Effective Date	10% (60% reduces to 50%)
Level 3	\$ 575 million	No time period specified	10% (50% reduces to 40%)
Level 4	\$ 650 million	No time period specified	10% (40% reduces to 30%)
Level 5	\$ 750 million	No time period specified	10% (30% reduces to 20%)

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provided, however, (i) if Net Remittances do not reach the minimum Level 1 amount prior to the first anniversary of the Legacy Effective Date, but reach the minimum Level 2 amount prior to the third anniversary of the Legacy Effective Date, the Bank shall retain, as collateral, 55% of the FCMC equity instead of 50%, as currently scheduled, and any subsequent reductions in the amount of FCMC equity pledged to the Bank shall be 10% smaller than the reductions currently scheduled; and provided further that (ii) if Net Remittances do not reach the minimum Level 1 amount prior to the first anniversary of the Legacy Effective Date and do not reach the minimum Level 2 amount prior to the third anniversary of the Legacy Effective Date, then the schedule for release of the equity interests in FCMC currently pledged to the Bank shall be as follows: (x) upon attaining the minimum Level 3 amount, the pledged equity interests in FCMC shall reduce 25% (from 70% to 45%); (y) upon attaining the minimum Level 4 amount, the pledged equity interests in FCMC shall reduce an additional 10% (from 45% to 35%), and (z) upon attaining the minimum Level 5 amount, the pledged equity interests in FCMC shall reduce an additional 10% (from 35% to 25%); entry into a servicing agreement enabling the Company to receive fee income in respect of its continued servicing of the transferred Portfolio; and entry into amended credit facilities in the aggregate principal amount of \$13.5 million, including a \$5 million facility for working capital and to support various servicer licenses, a \$2 million revolving facility and a \$6.5 million letter of credit facility to support various servicer licenses.

Among the most significant costs of accomplishing these objectives were:

the possible transfer of ownership of a portion of FCMC, including a minimum of twenty percent and a maximum of seventy percent, to the Bank at maturity of the Company's Legacy Credit Agreement with the Bank, unless further extended if the Company is not otherwise able to satisfy or refinance the Legacy Credit Agreement prior to maturity;

the transfer of ten percent of ownership of FCMC to Franklin Holding's principal stockholder, Thomas J. Axon, as the cost of obtaining certain guarantees and pledges required by the Bank as a condition of the restructuring, subject to increase to an additional ten percent should the pledge of common shares of FCMC by Franklin Holding to the Bank be reduced upon the attainment by FCMC of certain net collection targets set by the Bank with respect to the Portfolio;

entry into a service agreement with respect to FCMC's continued servicing of the Portfolio that allows the Bank to terminate such servicing and, concomitantly, FCMC's fee income from servicing the Portfolio; and in part as a result of a tax basis transfer, the Company may incur significant income tax liabilities at termination of the Legacy Credit Agreement, liquidation of the Company or any of its direct or indirect subsidiary companies, or certain other Company events such as a de facto liquidation. The amount of any tax liability that the Company may incur is not certain since any such calculations need to be performed on a company by company basis and are influenced by a number of factors including, but not limited to, the ability to use prior year losses and future results of operations.

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Restructuring Agreements. In connection with the Restructuring, the Company and its subsidiaries have:

1. *Transferred substantially all of the Portfolio in exchange for the REIT Securities.*

Pursuant to the terms of a Transfer and Assignment Agreement, certain subsidiaries of the Company (the Franklin Transferring Entities) transferred approximately 83% of the Portfolio to a newly formed Delaware statutory trust (New Trust) in exchange for the following trust certificates (collectively, the Trust Certificates):

- (a) an undivided 100% interest of the Bank s portion of consumer mortgage loans (the Bank Consumer Loan Certificate);
- (b) an undivided 100% interest in the Bank s portion of consumer REO assets (the Bank Consumer REO Certificate, and together with the Bank Consumer Loan Certificate, the Bank Trust Certificates);
- (c) an undivided 100% interest in the portion of consumer mortgage loan assets allocated to the M&I Marshall & Ilsley Bank (M&I) and BOS (USA) Inc. (BOS) (M&I and BOS collectively, the Participants) represented by two certificates (the Participants Consumer Loan Certificates); and
- (d) an undivided 100% interest in Participants portion of the consumer REO assets represented by two certificates (the Participants Consumer REO Certificates, and together with the Participants Consumer Loan Certificate, the Participants Trust Certificates).

The Bank Trust Certificates represent approximately 83.27961% of the assets transferred to New Trust considered in the aggregate (such portion, the Bank Contributed Assets) and the Participants Trust Certificates represent approximately 16.72039% of the assets transferred to New Trust considered in the aggregate.

Pursuant to the Transfer and Assignment Agreement, the Franklin Transferring Entities made certain representations, warranties and covenants to New Trust related to the Portfolio. To the extent any Franklin Selling Entity breaches any such representations, warranties and covenants and the Franklin Transferring Entities are unable to cure such breach, New Trust has recourse against the Franklin Transferring Entities (provided that recourse to FCMC is limited solely to instances whereby FCMC transferred REO property FCMC did not own) (the Reacquisition Parties). In such instances, the Reacquisition Parties are obligated to repurchase any mortgage loan or REO property and indemnify New Trust, the Bank, the Administrator (as defined below), the holders of the Trust Certificates and the trustees to the trust agreement. The Franklin Transferring Entities provided representations and warranties, including but not limited to correct information, loans have not been modified, loans are in force, valid lien, compliance with laws, licensing, enforceability of the mortgage loans, hazardous substances, fraud, and insurance coverage. In addition, the Franklin Transferring Entities agreed to provide certain collateral documents for each mortgage loan and REO property transferred (except to the extent any collateral deficiency was disclosed to New Trust). To the extent any collateral deficiency exists with respect to such mortgage loan or REO property and the Franklin Transferring Entities do not cure such deficiency, the Reacquisition Parties shall be obligated to repurchase such mortgage loan. In connection with the reacquisition of any asset, the price to be paid by the Reacquisition Parties for such asset (the Reacquisition Price) shall be as agreed upon by the Administrator and the applicable Reacquisition Party; provided, however, should such parties not promptly come to agreement, the Reacquisition Price shall be as determined by the Administrator in good faith using its sole discretion.

The subsidiaries then transferred the Trust Certificates to a newly formed Delaware limited liability company, Franklin Asset, LLC, in exchange for membership interests in Franklin Asset, LLC. Franklin Asset, LLC then contributed the Bank Trust Certificates to a newly formed Delaware limited liability company, Franklin Asset Merger Sub, LLC, in exchange for membership interests in Franklin Asset Merger Sub, LLC (Franklin Asset, LLC retained the Participant Trust Certificates). Franklin Merger Sub, LLC merged with and into a Huntington National Bank wholly-owned subsidiary of the REIT (REIT Sub) and Franklin Asset, LLC received the REIT Securities having in the aggregate a value equal to the estimated fair market value of the loans underlying the Bank Trust Certificates, which as of March 31, 2009 was approximately \$477.3 million, in exchange for its membership interests in Franklin Asset Merger Sub, LLC. The preferred REIT Securities have a liquidation value of \$100,000 per unit and an annual cumulative dividend rate of 9% of such liquidation value. If there is a reacquisition required to be made by the

Reacquisition Parties under the Transfer and Assignment Agreement, Franklin Asset, LLC will return such number of Class C Preferred Shares of Huntington Capital Financing Stock that is equal in value to the Reacquisition Price (as defined in the Transfer and Assignment Agreement).

Table of Contents*2. Amended and restated substantially all of its outstanding debt.*

Pursuant to the terms of the Amended and Restated Credit Agreement (Legacy) (the Legacy Credit Agreement), the Company amended and restated substantially all of its indebtedness currently subject to a certain First Amended and Restated Forbearance Agreement and Amendment to Credit Agreements, dated December 19, 2008, and a certain First Amended and Restated Tribeca Forbearance Agreement and Amendment to Credit Agreements, dated December 19, 2008 (the Forbearance Agreements). As more fully described below, pursuant to the terms of the Legacy Credit Agreement, (1) the Participant Trust Certificates were collaterally assigned to the Bank as collateral for the loans as modified pursuant to the terms of the Legacy Credit Agreement (the Restructured Loans); (2) all net collections received by New Trust in connection with the portion of the Portfolio represented by the Bank Trust Certificates will be paid to the REIT Sub or its subsidiaries; (3) the REIT Securities were pledged to the Bank as collateral for the Restructured Loans; (4) Franklin Holding pledged seventy percent (70%) of the common equity in FCMC to the Bank as collateral for the Restructured Loans; and (5) Franklin Holding and FCMC were released from existing guarantees of the Restructured Loans, including Franklin Holding's pledge of 100% of the outstanding shares of FCMC, in exchange for providing certain limited recourse guarantees relating to the Restructured Loans, wherein the Bank agreed to exercise only limited recourse against property encumbered by the pledge agreement (the Pledged Collateral) made in connection with the Legacy Credit Agreement, provided Franklin Holding and FCMC, respectively, any designee acting under the authority thereof or any subsidiary of either Franklin Holding or FCMC did not (i) commission any act fraud or material misrepresentation in respect of the Pledged Collateral; (ii) divert, embezzle or misapply proceeds, funds or money and/or other property relating in any way to the Pledged Collateral; (iii) breach any covenant under Article IV of the Pledge Agreement entered into by Franklin Holding; or (iv) conduct any business activities to perform diligence services, to service mortgage Loans or REO Properties or any related activities, directly or indirectly, other than by FCMC and Franklin Credit Loan Servicing, LLC.

The terms of the Legacy Credit Agreement vary according to the three tranches of loans covered by the Legacy Credit Agreement. Tranche A includes outstanding debt in the approximate principal sum of \$837.9 million bearing interest at a per annum rate equal to one-month LIBOR plus 2.25% per annum, payable monthly in arrears on the outstanding principal balance of the related advances. Tranche B includes outstanding debt in the approximate principal sum of \$407.5 million bearing interest at a per annum rate equal to one-month LIBOR plus 2.75% per annum, payable monthly in arrears on the outstanding principal balance of the related advances. Tranche C includes outstanding debt in the approximate principal sum of \$125 million bearing interest at a per annum rate equal to 15%, payable monthly in arrears on the outstanding principal balance of the related advances. In the event of a default, the applicable interest rate will increase to 5% over the rate otherwise applicable to the respective tranche.

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Terms of the Restructured Indebtedness Under the Legacy Credit Agreement. The following table summarizes the principal economic terms of the Company's indebtedness under the Legacy Credit Agreement immediately following the Restructuring.

	Outstanding	Outstanding	Applicable	Required
	Principal Amount	Principal Amount	Interest	Monthly
	at March 31, 2009	at June 30, 2009	Margin Over	Principal
	Franklin	Franklin	LIBOR	Amortization
	Asset/Tribeca	Asset/Tribeca	(basis points)	
Tranche A	\$ 838,000,000	\$ 787,000,000	225	None
Tranche B	\$ 407,000,000	\$ 410,000,000	275	None
Tranche C	\$ 125,000,000	\$ 130,000,000	N/A ⁽¹⁾	None
Unrestructured Debt	\$ 41,000,000	\$ 40,000,000	(2)	None

(1) The applicable interest rate is fixed at 15% per annum. Interest will be paid in kind during the term of the Restructuring.

(2) Interest margin over FHLB 30-day LIBOR advance rate plus 2.60-2.75%.

The interest rate under the terms of the Restructuring Agreements for Tranche A and Tranche B indebtedness that is the basis, or index, for the Company's interest cost is the one-month London Interbank Offered Rate (LIBOR) plus applicable margins. In accordance with the terms of the Restructuring Agreements, interest due and unpaid on Tranche B and Tranche C debt is accrued and added to the debt balance.

All cash available for each tranche shall be used to pay cash interest to the extent cash is available, and any accrued interest for which cash is not available will be added to the principal sum of such tranche. Cash payments on each tranche will be made from: (i) any cash or other assets of the borrowers (Tribeca and certain subsidiaries of Tribeca and Franklin Credit Asset Corporation), (ii) dividends and distributions on the REIT Securities, all of which shall be applied as a non pro rata distribution solely to the Bank's pro rata share of such tranche (until paid in full), (iii) all distributions made by New Trust on the Participant Trust Certificates, all of which shall be applied as a non pro rata distribution to the Participants' pro rata shares of such tranche (until paid in full), and (iv) from any proceeds received from any other collateral, which will be applied pursuant to a waterfall provision described more fully in the Legacy Credit Agreement. The borrowers will not be required to make scheduled principal payments, provided that all amounts received by any borrower in excess of accrued interest, whether from collateral or otherwise, shall be applied to reduce the principal sum. All remaining principal and interest will be due and payable at maturity of the Legacy Credit Agreement on March 31, 2012. Based on the current cash flows described above, it is not expected that that the

Company will be able to repay remaining principal and interest due on March 31, 2012. Under such circumstances, the Bank would have all available rights and remedies under the Legacy Credit Agreement.

In accordance with the terms of the Legacy Credit Agreement, during the three months ended June 30, 2009, the outstanding balance of Tranche B increased from \$407.0 million to \$409.7 million and the outstanding balance of Tranche C increased from \$125.0 million to \$129.7 million, due to the addition of accrued interest for which cash was not available to pay the interest due.

The Legacy Credit Agreement contains representations, warranties, covenants and events of default (The Legacy Credit Agreement Defaults) that are customary in transactions similar to the restructuring. Some, but not all, of the Legacy Credit Agreement defaults (including defaults under provisions relating to enforceability, bankruptcy, maintenance of collateral and lien positions, and certain negative covenants typical for agreements of this nature) will create an event of default under the Licensing Credit Agreement and the Servicing Agreement (as defined below).

Under such circumstances, the Bank would be entitled to foreclose on all of the assets of the Company pledged to the Bank, including on Franklin Holding 's pledge of 70% of the stock of FCMC.

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The Legacy Credit Agreement is secured by a first priority security interest in (i) the REIT Shares; (ii) the Participant Trust Certificates; (iii) an undivided 16.72039% interest in the consumer mortgage loans and REO properties transferred to New Trust; (iv) 70% of all equity interests in FCMC, and 100% equity interests in all other direct and indirect subsidiaries of Franklin Holding, pledged by Franklin Holding (subject to partial releases of such equity interests under Cumulative Collective Targets under the terms relating to the Servicing Agreement); (v) all amounts owing pursuant to any deposit account or securities account of any Company entities bound to the Legacy Credit Agreement (other than Franklin Holding), (vi) a first mortgage in real property interests at 6 Harrison Street, Unit 6, New York, New York; (vii) all monies owing to any borrower from any taxing authority; (viii) any commercial tort or other claim of FCMC, Holding, or any borrower, including FCMC's right, title and interest in claims and actions with respect to certain loan purchase agreements and other interactions of FCMC with various entities engaged in the secondary mortgage market; (ix) certain real property interests of FCMC in respect to the proprietary leases under the existing Forbearance Agreements if not transferred to New Trust; (x) a second priority lien on cash collateral held as security for the Licensing Credit Agreement to FCMC; and (xi) any monies, funds or sums due or received by any Borrower in respect of any program sponsored by any Governmental Authority, any federal program, federal agency or quasi-governmental agency, including without limitation any fees received, directly or indirectly, under the U.S. Treasury Homeowners Affordability and Stability Plan. Any security agreement, acknowledgement or other agreement in respect of a lien or encumbrance on any asset of New Trust shall be non-recourse in nature and shall permit New Trust to distribute, without qualification, 83.27961% of all net collections received by New Trust to the REIT Sub and its subsidiaries irrespective of any event or condition in respect of the Legacy Credit Agreement. All collections received by New Trust, provided that an event of default has not occurred and is continuing, shall go first to the payment of monthly servicing fees, which shall be paid one month in advance, under the Servicing Agreement and then to (i) Administration Fees, expenses and costs (if any), (ii) pro rata to the owner trustee, certificate trustee and each custodian for any due and unpaid fees and expenses of such trustee and/or custodian, and (iii) to the pro-rata ownership of the Trust Certificates. All amounts received pursuant to the Participants Trust Certificates shall be distributed pursuant to the applicable Waterfall provisions.

3. *Entered into an amended and restated credit agreement to fund FCMC's licensing obligations and working capital.*

Franklin Holding and FCMC have entered into an Amended and Restated Credit Agreement (Licensing) (the Licensing Credit Agreement) which includes a credit limit of \$13,500,000, composed of a secured (i) revolving line of credit (Revolving Facility) up to the principal amount outstanding at any time of \$2,000,000, (ii) up to the aggregate stated amount outstanding at any time for letters of credit of \$6,500,000, and (iii) a draw credit facility (Draw Facility) up to the principal amount outstanding at any time of \$5,000,000. The Revolving Facility and the letters of credit shall be used to assure that all state licensing requirements of FCMC are met and to pay approved expenses of the Company. The Draw Facility shall be used to provide for working capital of FCMC, and amounts drawn and repaid under this facility cannot be reborrowed. As of June 30, 2009, \$1.0 million was outstanding under the revolving facility and \$6.2 million of letters of credit for various state licensing purposes were outstanding.

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The principal sum shall be due and payable in full on the earlier of the date that the Licensing Agreement is due and payable in full pursuant to the terms of this facility, whether by acceleration or otherwise, or at maturity on March 31, 2010. Advances under the Revolving Facility shall bear interest at the one-month reserve adjusted LIBOR Rate plus a margin of 8%. Advances under the Draw Facility shall bear interest at the one-month reserve adjusted LIBOR Rate plus a margin of 6%. The requirement to make monthly payments of interest accrued on the Advances under the Revolving Facility and the Draw Facility commenced on April 30, 2009. After any default, all advances and letters of credit shall bear interest at 5% in excess of the rate of interest then in effect.

The Licensing Credit Agreement contains warranties, representations, covenants and events of default that are customary in transactions similar to the restructuring.

The Licensing Credit Agreement is secured by (i) a first priority security interest in FCMC's cash equivalents in a controlled account maintained at the Bank in an amount satisfactory to the Bank, but not less than \$8,500,000, (ii) blanket existing lien on all personal property of FCMC, (iii) a second mortgage in real property interests at 6 Harrison Street, Unit 6, New York, New York, (iv) a first Mortgage in certain real property interests at 350 Albany Street, New York, New York; and (v) any monies or sums due FCMC in respect of any program sponsored by any Governmental Authority, including without limitation any fees received, directly or indirectly, under the U.S. Treasury Homeowners Affordability and Stability Plan.

The Draw Facility is guaranteed by Thomas J. Axon, Chairman of the Board of Directors and a principal stockholder of the Company. Mr. Axon's Guaranty shall be secured by a first priority and exclusive lien on commercial real estate, at a loan to value ratio satisfactory to the Bank. In consideration for his guaranty, the Bank and the Company's Audit Committee each has consented to the payment to Mr. Axon equal to 10% of FCMC's common shares, which has been paid, subject to a further payment of up to an additional 10% in FCMC's common shares should the pledge of common shares of FCMC by Franklin Holding to the Bank be reduced upon attainment by FCMC of certain net collection targets set by the Bank with respect to the Portfolio.

4. Entered into a servicing agreement with the New Trust.

The servicing agreement (the Servicing Agreement) governs the servicing by FCMC, as the servicer (the Servicer) of the Portfolio transferred to New Trust. New Trust and/or the Bank as the administrator of New Trust (the

Administrator) have significant control over all aspects of the servicing of the Portfolio based on (i) a majority of the Servicer's actions or Servicer's utilization of any subservicer or subcontractor is contingent on the Servicer receiving explicit instructions or consent from New Trust or Administrator, (ii) compliance with work rules and an approval matrix provided by the Bank and (iii) monthly meetings between New Trust and the Servicer.

All collections by the Servicer are remitted to a collection account and controlled through the Bank's lockbox account. The Administrator shall transfer the collection amounts from the lockbox account to a certificate account whereby the funds shall flow through the trust agreement's Waterfall as described above. The Servicer's servicing fees and servicing advance reimbursements are paid in advance provided an event of default has not occurred. If an event of default has occurred, the Servicer's servicing fees and servicing advances are the third remittance in the Waterfall, following remittances for payment of Administrator, custodian and trustee fees.

New Trust's indemnification obligation to the Servicer is limited to the collections from the Portfolio. In addition, the Servicer will be indemnified by New Trust only for a breach of corporate representations and warranties or if the Administrator forces the Servicer to take an action that results in a loss to the Servicer.

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The Servicer is required to maintain net worth of approximately \$7.6 million and net income before taxes of \$800,000 for the most recent twelve-month period or an event of default will be deemed to have occurred. In addition to typical servicer events of default and the defaults listed above, the Servicing Agreement contains the following events of default: (i) certain defaults under the Legacy Loan Agreement would trigger an event of default under the Servicing Agreement, (ii) failure to adopt a servicing action plan as directed by the Administrator would trigger an event of default, (iii) any event of default under the Licensing Loan Agreement would trigger an event of default under the Servicing Agreement, and (iv) failure of Servicer to satisfy certain gross collection targets if determined to be the result of a failed servicing practice as determined by the Bank per a servicing audit would trigger an event of default. The Servicing Agreement shall have an initial term of three years which may be extended for one or two additional one year periods at the sole discretion of New Trust. During the first year of the agreement, Servicer shall receive a termination fee for each loan to the extent the servicing is terminated by the Bank for any reason other than a default under the terms of the servicing agreement. During the term of the servicing agreement, FCMC may not enter into any other third-party servicing agreements to service any other assets that could likely impair its ability to service the Portfolio without the consent of the Bank, which cannot be unreasonably withheld.

Interest Rate Caps

On September 5, 2007, the Company purchased a \$200 million (notional amount) one-month LIBOR cap with a strike price of 5.75% at a price of \$102,000, and on September 6, 2007, the Company purchased a \$400 million (notional amount) one-month LIBOR cap with a strike price of 6.0% at a price of \$90,000. Both cap agreements expired on September 30, 2008.

Interest Rate Swaps

Effective February 27, 2008, the Company entered into \$725 million (notional amount) of fixed-rate interest-rate swaps in order to effectively stabilize the future interest payments on a portion of its interest-sensitive borrowings. The fixed-rate swaps are for periods ranging from one to four years, are non-amortizing, and are in effect for the respective full terms of each swap agreement. These swaps effectively fixed the Company's interest costs on a portion of its borrowings regardless of increases or decreases in the one-month LIBOR. The interest-rate swaps were executed with the Company's lead lending bank and are for the following terms: \$220 million notional amount for one year at a fixed rate of 2.62%; \$390 million notional amount for two-years at a fixed rate of 2.79%; \$70 million notional amount for three years at a fixed rate of 3.11%; and, \$45 million notional amount for four years at a fixed rate of 3.43%. Effective April 30, 2008, the Company entered into an additional \$275 million (notional amount) of fixed-rate interest-rate swaps in order to effectively stabilize the future interest payments on a portion of its interest-sensitive borrowings. The fixed-rate swaps are for a period of three years, are non-amortizing, and at a fixed rate of 3.47%. These swaps reduced further the Company's exposure to future increases in interest costs on a portion of its borrowings due to increases in one-month LIBOR during the remaining terms of the swap agreements. The interest-rate swaps were executed with the Company's lead lending bank.

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Under these swap agreements, the Company makes interest payments to its lead lending bank at fixed rates and receives interest payments from its lead lending bank on the same notional amounts at variable rates based on LIBOR. Effective December 28, 2007, the Company pays interest on its interest-sensitive borrowings, principally based on one-month LIBOR plus applicable margins. Accordingly, Franklin established a fixed rate, plus applicable margins, on \$1.0 billion of its borrowings, which at the time of entering into the swap agreements ranged from one year to four years. On March 5, 2009, \$220 million of one-year interest-rate swaps matured, which have not been replaced.

In conjunction with the Restructuring, and at the request of the Bank, effective March 31, 2009, the Company exercised its right to terminate two non-amortizing fixed-rate interest-rate swaps with the Bank, one with a notional amount of \$150 million and the other with a notional amount of \$240 million. The total termination fee for cancellation of the swaps was \$8.2 million, which is payable only to the extent cash is available under the waterfall provisions of the Legacy Credit Agreement, and only after the \$787.5 million remaining at June 30, 2009 of Tranche A debt owed to the Bank has been paid in full.

The unamortized balance of derivative losses in the amount of \$24.0 million, as a result of the Company electing to cease hedge accounting as of December 31, 2008, is amortized to interest expense over time. The amount amortized during the three and six months ended June 30, 2009 was \$3.7 million and \$7.6 million, respectively, which increased our interest expense.

The following table presents the notional and fair value amounts of the interest-rate swaps outstanding at June 30, 2009.

Notional Amount	Term	Maturity Date	Fixed Rate	Estimated Fair Value*
\$ 275,000,000	3 years	March 5, 2011	3.47%	\$ (10,714,131)
70,000,000	3 years	March 5, 2011	3.11%	(2,220,380)
45,000,000	4 years	March 5, 2012	3.43%	(1,836,731)
\$ 390,000,000				\$ (14,771,242)

* Determined in accordance with SFAS 157 based upon a Level 2 valuation methodology.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of business, including principally the impact of interest rate changes, real estate, delinquency and default risk of the loans that we service for third parties, and changes in corporate tax rates. A material change in these risks or rates could adversely affect our operating results and cash flows.

Impact of Inflation

The Company measures its financial condition and operating results in historical dollars without considering changes in the purchasing power of money over time due to inflation, although the impact of inflation is reflected in increases in the costs of our operations. Substantially all of the Company's assets and liabilities are monetary in nature, and therefore, interest rates have a greater impact on our performance than the general effects of inflation. Because a substantial portion of the Company's borrowings are sensitive to changes in short-term interest rates, any increase in inflation, which often gives rise to increases in interest rates, could materially impact the Company's financial performance.

Interest Rate Risk

Interest rate fluctuations can adversely affect our operating results and present a variety of risks, including the risk of a mismatch between the repricing of interest-earning assets and borrowings, and variances in the yield curve.

Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply and other factors beyond our control may also affect interest rates. Fluctuations in market interest rates are neither predictable nor controllable and may have a material adverse effect on our business, financial condition and results of operations.

The Company's operating results depend in large part on differences between the interest earned on its assets and the interest paid on its borrowings. Most of the Company's assets, consisting primarily of REIT Securities (principally preferred REIT stock) and Trust Certificates (collateralized by mortgage loans and real estate owned properties) generate fixed returns and have remaining contractual maturities in excess of five years. Our borrowings are based on one-month LIBOR. In most cases, the interest income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings, creating a mismatch between interest earned on our interest-yielding assets and the interest paid on our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, will significantly impact our net interest income and, therefore, net income. Our borrowings bear interest at rates that fluctuate with the one-month LIBOR rate. We currently use interest-rate derivatives, essentially interest-rate swaps, to hedge our interest rate exposure by converting a portion of our highly interest-sensitive borrowings from variable-rate payments to fixed-rate payments. Based on approximately \$848.4 million of unhedged interest-rate sensitive borrowings outstanding at June 30, 2009, a 1% instantaneous and sustained increase in the one-month LIBOR rate could increase quarterly interest expense by as much as approximately \$2.1 million, pre-tax, during the remaining terms of the swap agreements, which would negatively impact our quarterly after-tax net income or loss. Due to our liability-sensitive balance sheet, increases in these rates will decrease both net income, or increase net loss, and the market value of our net assets. If the Company's existing swap contracts expire, and are not renewed, a 1% instantaneous and sustained increase in the one-month LIBOR rate would have the effect of increasing quarterly interest expense by approximately \$3.1 million, pre-tax. See Management's Discussion and Analysis - Borrowings.

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ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

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**PART II
OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

We are involved in routine litigation matters generally incidental to our business, which primarily consist of legal actions related to the enforcement of our rights under mortgage loans we hold, held or service for others, none of which is individually or in the aggregate material. In addition, because we originated, acquired and service mortgage loans throughout the country, we must comply and were required to comply with various state and federal lending laws, rules and regulations and we are routinely subject to investigation and inquiry by regulatory agencies, some of which arise from complaints filed by borrowers, none of which is individually or in the aggregate material.

ITEM 1A. RISK FACTORS

Not required because the Company is a Smaller Reporting Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On June 17, 2009, at the Company's annual meeting, the stockholders voted to elect two Directors to the Board of Directors and to amend the Certificate of Incorporation of FCMC to delete the provision, adopted pursuant to Section 251(g) of the General Corporation Law of the State of Delaware in connection with the Company's December 2008 corporate reorganization, that requires the approval of the stockholders of Franklin Holding in addition to the stockholders of FCMC for any action or transaction, other than the election or removal of directors, that would require the approval of the stockholders of FCMC. However, at the annual meeting, the stockholders did not ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2009.

Election of Directors

Director	For	Withhold	Abstain	Not Voted	Total
Alexander Gordon Jardin	6,778,059	200	588,152	658,884	8,025,295
William F. Sullivan	6,778,059	200	588,152	658,884	8,025,295

Certificate of Incorporation of FCMC

For	Against	Abstain	Not Voted	Total
6,808,566	501,683	56,160	658,886	8,025,295

Table of Contents***Independent Registered Public Accountants***

For	Against	Abstain	Not Voted	Total
3,492,909	484,562	3,388,938	658,886	8,025,295

ITEM 5. OTHER INFORMATION

Effective with the opening of stock market trading on April 22, 2009, the Company's common stock has been quoted on the OTC Bulletin Board under the trading symbol FCMC.OB. In May 2009, the Company's trading symbol was changed to FCMCE.OB to reflect its delinquency in not filing its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 in a timely manner. However, we met the OTC Bulletin Board filing requirements on June 19, 2009, and on June 23, 2009, the OTC Bulletin Board removed from our trading symbol the fifth character E. Our common stock was delisted from The Nasdaq Capital Market as of November 3, 2008, and has been quoted under the stock symbol FCMC.PK on the Pink Sheets, a centralized quotation service for over-the-counter securities, until April 22, 2009. Prior to November 3, 2008, the Company's common stock traded on The Nasdaq Capital Market. On August 10, 2009, Franklin Holding, and certain of its direct and indirect subsidiaries, including Franklin Asset (but not FCMC), entered into a second amendment to the Franklin Forbearance Agreement and Franklin 2004 master credit agreement (the Second Amendment) with the Bank relating to approximately \$40.2 million of the Company's indebtedness to the Bank (the Unrestructured Debt), which had been the remaining legacy indebtedness to the Bank not restructured on March 31, 2009. FCMC, which is not a party to the Second Amendment, is not obligated to the Bank with respect to the Unrestructured Debt.

Under the Second Amendment, the forbearance period with respect to the Unrestructured Debt has been extended from June 30, 2009, through and including September 30, 2009, and the Bank has agreed to forbear, during the forbearance period, with respect to any defaults past or present with respect to any failure to make scheduled principal and interest payments to the Bank (Identified Forbearance Default) relating to the Unrestructured Debt. In particular, during the forbearance period, the Bank, absent the occurrence and continuance of a forbearance default other than an Identified Forbearance Default, will not initiate collection proceedings or exercise its remedies in respect of the Unrestructured Debt or elect to have interest accrue at the stated rate applicable after default.

Upon expiration of the forbearance period, in the event that the Unrestructured Debt with the Bank remains outstanding, the Bank, with notice, could call an event of default under the Legacy Credit Agreement. The Licensing Credit Agreement and the Servicing Agreement do not include cross-default provisions that would be triggered by such a default. The Bank's recourse in respect of the Legacy Credit Agreement is limited to the assets and stock of Franklin Holding's subsidiaries, excluding the assets of FCMC (except for a first lien of the Bank on an office condominium unit and a second priority lien of the Bank on cash collateral held as security under the Licensing Credit Agreement) and the unpledged portion of FCMC's stock.

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ITEM 6. EXHIBITS

Exhibit Number	
3.1	First Amended and Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission (the Commission) on December 24, 2008.
3.2	Amended and Restated By-laws. Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on December 24, 2008.
10.100*	Amendment No. 2 to First Amended and Restated Forbearance Agreement and Amendment to Credit Agreements, dated as of August 10, 2009, by and among the Registrant, Franklin Credit Asset Corporation, Flow 2006 F Corp., FCMC 2006 M Corp., FCMC 2006 K Corp. and The Huntington National Bank.
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of Chief Executive Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of Chief Financial Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN CREDIT HOLDING CORPORATION

August 14, 2009

By: /s/ ALEXANDER GORDON JARDIN
Alexander Gordon Jardin
Chief Executive Officer
(Principal Executive Officer)

August 14, 2009

By: /s/ PAUL D. COLASONO
Paul D. Colasono
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

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