

## **Charter of the Audit Committee of the Board of Directors of Franklin Credit Holding Corporation**

**I. Purpose.** The Audit Committee ("Committee") of the Board of Directors ("Board") of Franklin Credit Holding Corporation ("Company") is designated by and acts on behalf of the Board pursuant to Article II, Section 9 of the Company's Bylaws ("Bylaws"). The Committee's purposes shall be:

- A. To assist the Board in its oversight of (i) the accounting and financial reporting processes of the Company and the audits of its financial statements; (ii) the integrity of the Company's financial statements; (iii) the Company's internal controls and procedures designed to promote compliance with accounting standards and applicable laws and regulations; and (iv) the performance of the Company's internal audit function;
- B. To interact directly with and evaluate the performance of the independent auditors, including to determine whether to engage or dismiss the independent auditors and to monitor the independent auditors' qualifications and independence; and
- C. To prepare the report required by the rules of the Securities and Exchange Commission ("SEC") to be included in the Company's proxy statement.

The role of the Committee is oversight. The members of the Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits, to independently verify management's representations, or to determine that the Company's financial statements are complete and accurate, prepared in accordance with generally accepted accounting principles in the United States ("GAAP") or fairly present the financial condition, results of operations, and cash flows of the Company. These are the responsibilities of management and the independent auditors. The Committee's considerations and discussions with management and the independent auditors do not assure that the Company's financial statements are presented in accordance with GAAP, that the audit of the Company's financial statements has been carried out in accordance with applicable auditing standards, or that the Company's independent auditors are in fact "independent."

## **II. Membership**

- A. The Committee shall be composed of at least three directors, each of whom shall be free from any relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment and must be found by the board to (i) qualify as an "independent director" under applicable rules, unless the Board determines that an exemption to such qualification is available under applicable rules. Members of the Committee must also satisfy the following additional independence requirements:

1 No Committee member may be an affiliated person of the Company or any of its subsidiaries, as defined in SEC Rule 10A-3 under the Securities Exchange Act of 1934, as amended ("Exchange Act"); and

2 No Committee member shall accept directly or indirectly, including through certain family members identified in SEC Rule 10A-3 under the Exchange Act, any consulting, advisory, or other fees from the Company or any subsidiary of the Company, except for fees for services as a director and member of the Audit Committee and any other Board committee and certain fixed retirement benefits and deferred compensation, as set forth in SEC Rule 10A-3.

B. In addition, all members of the Committee shall be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. At least one member of the Committee must in the judgment of the Board be an audit committee financial expert in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and shall have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, which results in such member's financial sophistication, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities.

C. The members of the Committee shall be nominated by the Nominating and Corporate Governance Committee and appointed by a majority of the Board for one-year terms. The Nominating and Corporate Governance Committee shall recommend, and the Board shall designate, one member of the Committee to serve as Chairperson. The members of the Committee shall serve until their resignation, retirement, or removal by the Board or until their successors shall be appointed.

### **III. Meetings and Procedures**

A. The Committee shall meet as often as it may deem necessary and appropriate in its judgment, but in no event less than quarterly. A majority of the members of the Committee shall constitute a quorum.

B. The Committee shall meet with the independent auditors, the senior executive of the Company who has responsibility for the internal auditing functions, and management in separate meetings, as often as it deems necessary and appropriate.

C. The Chairperson of the Committee or a majority of the members of the Committee may call a special meeting of the Committee.

D. The Committee may request that any directors, officers, or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting to provide such information as the Committee requests.

E. The Committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter.

F. The Committee shall report to the Board on the matters discussed at each meeting of the Committee, including describing all actions taken by the Committee at the meeting.

G. The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

H. The Committee may delegate authority to one or more members of the Committee where appropriate, but no such delegation shall be permitted if the authority is required by a law, regulation, or listing standard to be exercised by the Committee as a whole..

**IV. Duties and Responsibilities.** The Committee shall have the following resources, duties and responsibilities:

A. Resources. The Committee shall have:

1 Sole responsibility and the necessary funding, to retain, set compensation and retention terms for, compensate and terminate any internal and external legal, accounting and other advisors that the Committee determines to employ to assist in the performance of its duties.

2 Access to internal advisors and all other resources within the Company to assist it in carrying out its duties and responsibilities.

B. Duties with respect to the Financial Reporting Process. The Committee shall:

1. Oversee the accounting and financial reporting processes of the Company and the audits of its financial statements;

2. Generally oversee the disclosure controls and procedures established to provide full, fair, accurate, timely and understandable disclosure by the Company in periodic reports, proxy statements and other filings filed or furnished by the Company under the Exchange Act.

3. Review and discuss with management and the independent auditors the annual audited financial statements to be included in the Company's annual report on Form 10-K, the quarterly financial statements to be included in the Company's Form 10-Qs (including obtaining assurance from the independent auditors that they have reviewed the Company's quarterly financial reports within the meaning of the procedures set forth in Statement on Auditing Standards No. 71 prior to the filing of the Company's Form 10-Q for each quarter), the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and any other financial disclosures to be included in SEC

filings prior to their release. In addition, the Committee shall discuss with management and the independent auditors major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative GAAP methods on the financial statements, the effects of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the financial statements; and the use of pro forma or non-GAAP financial information. The Committee shall review with the independent auditors such auditors' judgment of the quality of the Company's accounting practices.

4. Review (if any) any material off-balance sheet transactions, arrangements and obligations (including contingent obligations) and any other relationships of the Company with unconsolidated entities that may have a current or future material effect on the Company's financial statements.

5. Review and discuss with management and the independent auditors the adequacy of the Company's CEO and CFO financial report certification process, any correspondence with regulators, and any published reports that raise material issues with respect to, or that could have a significant effect on, the Company's financial statements.

6. Recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

7. Review earnings press releases prior to their release, as well as the types of financial information and earnings guidance and types of presentations to be provided to analysts and rating agencies.

8. Prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

C. Duties with respect to Risk Assessment and the Control Environment. The Committee shall:

1. Discuss periodically with management the Company's policies and guidelines regarding risk assessment and risk management, including environmental risk assessment and risk management, as well as the Company's major financial risk exposures and the steps that management has taken to monitor and control such exposures.

2. Review and update periodically the Company's Code of Ethics and Business Conduct and have the sole authority to grant appropriate waivers of the

application of the Company's Code of Ethics and Business Conduct to a director or executive officer. Any such waiver shall, to the extent legally required, be promptly reported to the entire Board and publicly disclosed

3. Meet periodically with the senior members of the internal audit function, the general counsel's office and, where appropriate, the independent auditors, to review the Company's policies and procedures regarding practices that may impact the financial statements, and to review the Company's performance relative to the Code of Ethics and Business Conduct. Meet at least annually with the CFO and the independent auditor in separate executive sessions

4. Oversee the Company's internal controls and their adequacy and effectiveness, including its internal control over financial reporting; discuss with management and the independent auditors the impact on the Company of any significant deficiencies in the design or operation of internal control over financial reporting or material weaknesses therein and any special audit steps adopted in light of material control deficiencies; consider any fraud involving management or other employees that is reported to the Committee; and oversee appropriate corrective actions in internal control.

D. Duties with respect to the Independent Auditors. The Committee shall:

1. Have the sole authority to appoint, retain, set compensation and retention terms for, terminate, oversee, and evaluate the activities of the Company's independent auditors (including resolution of their disagreements with management regarding financial reporting). The independent auditors shall report directly to the Committee. The Company shall provide for appropriate funding, as determined by the Committee, to compensate the independent auditors.

2. Review and approve in advance the retention of the independent auditors for the performance of all audit and non-audit services that are not prohibited and the fees for such services. The Committee may establish policies and procedures for the pre-approval of audit and non-audit services, including the ability to delegate to one or more of its members the authority to grant pre-approvals for the performance of non-audit services, and any such Committee member who pre-approves a non-audit service shall report the pre-approval to the full Committee at its next meeting.

3. Prior to each audit, meet with the independent auditors to discuss the planning and staffing of the audit, including the impact of rotation requirements and other independence rules on the staffing.

4. At least annually, obtain and review a report by the independent auditors describing: (i) the auditing firm's internal quality-control procedures; and (ii)

any material issues raised by the most recent internal quality-control review, or Public Company Accounting Oversight Board review, of the firm, or by any inquiry or investigation by governmental or professional authorities or a private sector regulatory board, within the preceding five years, respecting one or more independent audits performed by the firm, and any steps taken to deal with any such issues.

5. Annually review and discuss with the independent auditors all relationships the independent auditors have with the Company in order to evaluate their continued independence. In this regard, the Committee shall (i) review on an annual basis a written statement from the independent auditors (consistent with Independent Standards Board Standard No. 1) that discloses all relationships and services that may impact the objectivity and independence of the independent auditors; (ii) discuss with the independent auditors any disclosed relationships or services that may impact their objectivity and independence; and (iii) take, or recommend that the full Board take, appropriate action to oversee the independence of the independent auditors

6. Review periodically any reports prepared by the independent auditors and provided to the Committee relating to significant financial reporting issues and judgments including, among other things, the Company's selection, application, and disclosure of critical accounting policies and practices; alternative treatments within GAAP for policies and practices relating to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors, and any other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

7. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Company's response to such letter. Such review should include:

- a. Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- b. Any changes required in the planned scope of the internal audit.
- c. The financial and accounting department responsibilities, budget and staffing.

8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit. Document that such discussion has taken place noting the date, participants and place of the discussion, but not the nature and scope of such discussion so that frank and open communication between the Committee and the independent auditor may occur.

9. After reviewing the reports from the independent auditors and the independent auditors' work throughout the audit period, conduct an annual evaluation of the independent auditors' performance and independence, including considering whether the independent auditors' quality controls are adequate. This evaluation also shall include the review and evaluation of the lead partner of the independent auditors, including assuring the regular rotation of the lead audit partner as required by law. In making its evaluation, the Committee shall take into account applicable legal and listing requirements as well as the opinions of management and the senior member of the Company's internal audit department. The Committee shall present its conclusions with respect to the evaluation of the independent auditors to the Board.

10. Set clear policies for the hiring by the Company of employees or former employees of the independent auditors. Specifically, the Company shall not hire as its Chief Executive Officer, Chief Financial Officer, Controller, Chief Accounting Officer, or any person serving in a financial reporting oversight role any partner, employee, or former employee of the Company's independent auditors who participated in any capacity in an audit of the Company during the one-year period preceding the date of initiation of the then-current audit.

E. Duties with respect to the Internal Audit Function. The Committee shall:  
Review any significant reports to management prepared by the internal audit function and management's responses.

1. Oversee the activities, organizational structure, and qualifications of the persons performing the internal audit function.

2. Review and approve the appointment and replacement of the senior member of the internal audit function.

3. Review and approve the annual internal audit plan of, and any special projects undertaken by, the internal audit function, and discuss the internal audit function's plan, operations and budget with the Company's independent auditors.

4. Discuss with the internal audit function any changes to, and the implementation of, the internal audit plan and any special projects and discuss with the internal audit function the results of the internal audits and special projects.

5. Review any significant reports to management prepared by the internal audit function and management's responses.

F. Duties with respect to Evaluations and Reports. The Committee shall:

1 Under the guidance of the Nominating and Corporate Governance Committee, annually review and assess the performance of the Committee and deliver a report to the Nominating and Corporate Governance Committee which will then deliver a report to the Board setting forth the results of the Committee's evaluation. In conducting this review, the Audit Committee shall address matters that it considers relevant to its performance, including at a minimum, the adequacy, appropriateness, and quality of the information and recommendations presented to the Committee, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

2 Make regular reports to the Board on its activities, including reviewing any issues that arise respecting the quality and integrity of the Company's public reporting, the Company's compliance with legal and regulatory requirements, the performance and independence of the Company's independent auditors, the performance of the Company's internal audit department, and the effectiveness of the Company's disclosure controls and procedures.

G. Other Duties and Responsibilities. The Committee shall:

1 Review and approve all related party transactions.

2 Establish and maintain procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

3 Review and address any notifications regarding violations of the Company's Code of Ethics and Business Conduct.

4 Review and assess the adequacy of this Charter annually and recommend any proposed changes to the Nominating and Corporate Governance Committee, which shall, if appropriate, recommend such changes to the Board for its approval.

5 Maintain free and open communication with the Board, management, the internal auditor, and the independent auditors.

6 Perform any other activities consistent with this Charter, the Company's Amended and Restated Certificate of Incorporation, the Company's Bylaws, and governing law, as the committee or the Board may deem necessary or appropriate.