

Statement of Policy and Procedures of the Audit Committee of Franklin Credit Holding Corporation

Pre-Approval of Engagements for Audit and Non-Audit Services

Introduction

The Sarbanes-Oxley Act of 2002 (the "Act") vests in the Audit Committee of the Board of Directors the responsibility to appoint and to oversee the work of the Independent Auditors of Franklin Credit Holding Corporation (the "Company"). Under the Act and under rules that the Securities and Exchange Commission (the "SEC" or the "Commission") has issued pursuant to the Act, that responsibility includes in particular the requirement that the Audit Committee review and pre-approve (i.e. approve prior to the commencement of such services) all audit and non-audit services performed by the Independent Auditors. In exercising that responsibility, it is the policy of the Audit Committee to give paramount consideration to the question of whether the engagement of the Independent Auditors to perform the proposed services is likely to create a risk that the Independent Auditors' independence may be compromised. To that end, the Audit Committee will endeavor to exercise its discretion in a manner intended to avoid or minimize the risk of compromising the independence of the Independent Auditors.

General Considerations

In making this determination, the Audit Committee is mindful of the guidance provided by the SEC: "The Commission's principles of independence with respect to services provided by auditors are largely predicated on three basic principles, violations of which would impair the auditor's independence: (1) an auditor cannot function in the role of management, (2) an auditor cannot audit his or her own work, and (3) an auditor cannot serve in an advocacy role for his or her client." Thus, in evaluating whether a proposed engagement presents a material risk of compromising the independence of the Independent Auditors, the factors that the Audit Committee will typically consider will include whether the service in question is likely to cause the Independent Auditors to function in a management role, to be put in the position of auditing their own work, or to serve in an advocacy role for the Company. In addition, the Audit Committee believes that the risk of such compromise may increase as the volume of non-audit services performed by the Independent Auditors exceeds the volume of audit services performed by the Independent Auditors. Accordingly, it is the policy of the Audit Committee that, in the absence of strong countervailing considerations, the total amount of fees payable to the Independent Auditors on account of non-audit services (excluding audit-related services) with respect to any fiscal year should not exceed the total amount of fees for audit services and audit-related services payable to the Independent Auditors with respect to such year. For purposes of this policy statement, "audit-related services" means those services relating to "audit-related fees" (as such term is used by the SEC). This policy is adopted with the intent to maintain Committee flexibility in circumstances under which a proposed engagement for non-audit services is likely to provide the Company with benefits that substantially outweigh the risk to independence.

In order to assist the Audit Committee in applying this policy, any officer or other employee of the Company who proposes that the Independent Auditors be engaged to perform audit or non-audit services will be expected to submit such a proposal to the Audit Committee accompanied by the following supporting materials, to the extent appropriate given the facts and circumstances of the proposed engagement:

- 1 A description of the services proposed to be provided by the Independent Auditors.
- 2 A description of the extent, if any, to which the services in question are likely to cause the Independent Auditors to function in the role of management, to recommend actions by the Company that the Independent Auditors may be called upon to review in their role as the Company's Independent Auditors, or to serve as an advocate for the Company.
- 3 A description of the qualifications of the Independent Auditors that demonstrate their capability to perform the services in question.
- 4 The name or names of service-providers who were considered as alternatives to the Independent Auditors to perform the services in question, and a description of the qualifications of each such alternative service-provider relating to its capability to perform the services in question.
- 5 A detailed explanation of the benefits that the Company is expected to enjoy as a result of engaging the Independent Auditors, rather than an alternative service-provider, to perform the services in question.
- 6 An estimate of the amount of fees that the Independent Auditors are likely to be paid for performance of the services in question.

The Audit Committee will typically approve requests to engage the Independent Auditors to provide those types of non-audit services that are closely related to the audit services performed by the Independent Auditors, such as services relating to tax compliance and preparation of tax returns. Because such non-audit services bear a close relationship to the audit services provided by the Independent Auditors, the Audit Committee believes that they will not ordinarily present a material risk of compromising the Independent Auditors' independence.

The Audit Committee notes that requests to engage the Independent Auditors to perform "due diligence" services relating to transactions that the Company may be considering from time to time will require a careful balancing of the potential for the Independent Auditors to review their own work against, among other things, the fact that (i) such due diligence services may be closely related to audit services, (ii) the Independent Auditors' familiarity with the Company and its businesses may provide important insights and cost efficiencies, and (iii) the concurrent engagement of the Independent Auditors may be necessary in connection with the Company's obligations to file periodic reports or current reports relating to such transactions with the SEC.

A list of audit and non-audit services anticipated to be required by the Company is attached to this policy as Exhibit A.

The Audit Committee will not approve any prohibited non-audit service, as such may be identified from time to time by the SEC. A list of the SEC's prohibited non-audit services is attached to this policy as Exhibit B, which list may be updated from time to time. The SEC's

Certain de minimus non-audit services may, to the extent permitted by the Act and SEC's rules, be subject to approval after commencement if: (1) the aggregate amount of the non-audit services is not more than five percent of the total amount of revenues paid by the issuer to the accountant during the fiscal year in which the non-audit services were provided, (2) at the time of the engagement the issuer did not recognize the services to be non-audit services, and (3) the services are approved by the audit committee (or the Chairman acting pursuant to the authority delegated hereunder) prior to the completion of the audit. However, it is not the Company's policy for services to be undertaken on such basis.

Delegation of Authority

To ensure prompt handling of unexpected matters, between meetings of the Audit Committee, the Chairman of the Audit Committee is authorized and directed, for and on behalf of the Audit Committee, to review and to approve services to be provided by the Independent Auditors as the Chairman may deem reasonable or necessary and which the Chairman may deem as consistent with this policy, provided that the expected fees for each such service so approved does not exceed \$50,000 and that the aggregate expected fees for all such services so approved from one meeting of the Audit Committee to the next does not exceed \$150,000. Any approval by the Chairman of any such service shall serve as conclusive evidence of the Chairman's determination of the reasonable or necessary nature of such service and the Chairman's determination that such service is consistent with this policy. The Chairman shall report to the Audit Committee at each meeting thereof any and all specific services approved by the Chairman pursuant to his authority provided hereunder since the last such report made by the Chairman.

The Audit Committee recognizes the important interplay between the independence of the Independent Auditors and the engagement of the Independent Auditors for services, particularly non-audit services. Accordingly, despite its delegation of authority to the Chairman but without limiting such delegation, the Audit Committee will endeavor to consider proposed engagements of the Independent Auditors as a committee. In order to assist the Audit Committee in this endeavor, the Audit Committee expects that management generally will present proposed engagements of the Independent Auditors at regularly scheduled Audit Committee meetings.

Based on the Company's historical needs as assessed from time to time, the Audit Committee anticipates that services will be required in the future in connection with:

- 1) debt covenant compliance letters;
- 2) registration statements and other offering documents, including related consents and comfort letters;
- 3) the audit of the Company and related attestation services under Section 404 of the Act (which attestation shall not be a separate engagement from the audit of the Company), including review of the related press release and Annual Report on Form 10-K¹;
- 4) quarterly reviews of the Company's financial statements, Quarterly Reports on Form 10Q and related press releases¹;
- 5) the audit of the Company's (including its subsidiaries') defined benefit plans and defined contribution plans, including the related 5500 reports and Reports on Form 11-K, if any; and
- 6) online accounting and research tools.

¹ Includes consultations by the Company's management with the Independent Auditors as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASB, or other regulatory or standard setting bodies.

- 1) Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- 2) Financial information systems design and implementation;
- 3) Appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- 4) Actuarial services;
- 5) Internal audit outsourcing services;
- 6) Management functions;
- 7) Human resources;
- 8) Broker or dealer, investment adviser or investment banking services;
- 9) Legal services; and
- 10) Expert services unrelated to the audit.