

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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Patient Safety Technologies, Inc

CIK: **812301** | IRS No.: **133419202** | State of Incorporation: **DE** | Fiscal Year End: **1231**

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SIC: **3842** Orthopedic, prosthetic & surgical appliances & supplies

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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 September 30, 2006

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-17771

FRANKLIN CREDIT MANAGEMENT CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2243266

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

101 Hudson Street

Jersey City, New Jersey 07302

(201) 604-1800

(Address of principal executive offices)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 November 10, 2006: 8,010,295

FRANKLIN CREDIT MANAGEMENT CORPORATION

FORM 10-Q

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and cash equivalents	\$5,127,839	\$3,886,506
Restricted cash	26,287,705	17,008,649
Short-term investments	16,803,114	16,954,019
Notes Receivable:		
Principal	1,102,342,813	934,657,413
Purchase discount	(13,925,438)	(17,809,940)
Allowance for loan losses	(55,361,125)	(67,276,155)
Net notes receivable	<u>1,033,056,250</u>	<u>849,571,318</u>
Originated loans held for sale	7,571,552	12,844,882
Originated loans held for investment, net	407,199,604	372,315,935
Accrued interest receivable	19,031,418	13,341,964
Other real estate owned	22,717,436	19,936,274
Deferred financing costs, net	10,450,580	10,008,473
Other receivables	6,884,779	7,309,505
Building, furniture and equipment, net	3,959,521	4,029,481
Other assets	4,773,770	1,033,583
Total assets	<u>\$1,563,863,568</u>	<u>\$1,328,240,589</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable, net of debt discount of \$2,931,637 at September 30, 2006 and \$3,002,767 at December 31, 2005	\$1,428,725,988	\$1,203,880,994
Financing agreements	63,502,316	57,284,085
Accounts payable and accrued expenses	15,598,333	12,971,954
Success fee liability	6,706,541	5,721,918
Deferred income tax liability	374,098	787,470
Total liabilities	<u>1,514,907,276</u>	<u>1,280,646,421</u>
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value; authorized 3,000,000; issued - none	-	-
Common stock and additional paid-in capital, \$.01 par value, 22,000,000 authorized shares; issued and outstanding: 7,870,295 at September 30, 2006 and 7,539,295 at December 31, 2005	22,523,704	21,292,252
Retained earnings	26,432,588	26,599,207
Unearned compensation	-	(297,291)
Total stockholders' equity	<u>48,956,292</u>	<u>47,594,168</u>

Total liabilities and stockholders' equity

\$1,563,863,568

\$1,328,240,589

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2006	2005	2006	2005
		(Restated)		(Restated)
Revenues:				
Interest income	\$35,855,704	\$24,563,184	\$104,570,879	\$71,418,710
Purchase discount earned	2,660,711	3,146,839	6,863,384	8,266,115
Gain on sale of notes receivable	94,862	644,985	163,911	1,310,887
Gain on sale of originated loans	1,349,724	229,906	1,686,520	1,136,139
Gain on sale of other real estate owned	70,056	535,308	1,312,339	1,191,691
Prepayment penalties and other income	2,435,600	1,753,121	6,975,920	4,797,806
Total revenues	<u>42,466,657</u>	<u>30,873,343</u>	<u>121,572,953</u>	<u>88,121,348</u>
Operating Expenses:				
Interest expense	29,494,108	18,283,805	81,884,172	47,777,134
Collection, general and administrative	10,420,831	6,874,657	28,801,503	21,462,817
Provision for loan losses	1,709,165	1,080,155	6,740,440	3,331,087
Amortization of deferred financing costs	1,550,790	1,233,089	3,589,221	2,938,810
Depreciation	286,616	365,170	849,934	779,997
Total expenses	<u>43,461,510</u>	<u>27,836,876</u>	<u>121,865,270</u>	<u>76,289,845</u>
(Loss)/income before provision for income taxes	(994,853)	3,036,467	(292,317)	11,831,503
Income tax (benefit)/expense	(430,898)	1,381,029	(125,698)	5,431,118
Net (loss)/income	<u>\$(563,955)</u>	<u>\$1,655,438</u>	<u>\$(166,619)</u>	<u>\$6,400,385</u>
Net (loss)/income per common share:				
Basic	\$(0.07)	\$0.23	\$(0.02)	\$1.01
Diluted	\$(0.07)	\$0.22	\$(0.02)	\$0.91
Weighted average number of shares outstanding:				
Basic	7,755,628	7,060,989	7,635,989	6,353,526
Diluted	<u>7,755,628</u>	<u>7,610,161</u>	<u>7,635,989</u>	<u>7,005,029</u>

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)

	Common Stock and Additional Paid-in Capital		Retained Earnings	Unearned Compensation	Total
	Shares	Amount			
BALANCE, JANUARY 1, 2006	7,539,295	\$21,292,252	\$26,599,207	\$(297,291)	\$47,594,168
Reclassification adjustment on adoption of FASB 123(R)	-	(297,291)	-	297,291	-
Options and warrants exercised	217,000	335,805	-	-	335,805
Stock-based compensation	114,000	653,263	-	-	653,263
Excess tax benefit	-	539,675	-	-	539,675
Net loss	-	-	(166,619)	-	(166,619)
BALANCE, SEPTEMBER 30, 2006	<u>7,870,295</u>	<u>\$22,523,704</u>	<u>\$26,432,588</u>	<u>\$-</u>	<u>\$48,956,292</u>

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

	Nine Months Ended September 30,	
	2006	2005 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (166,619)	\$ 6,400,385
Adjustments to reconcile income to net cash provided by/(used in) operating activities:		
Gain on sale of notes receivable	(163,911)	(1,310,887)
Gain on sale of other real estate owned	(1,312,339)	(1,191,691)
Gain on sale of originated loans	(1,686,520)	(1,136,139)
Depreciation	849,934	779,997
Amortization of deferred costs and fees on originated loans	1,036,244	1,289,376
Amortization of deferred financing costs	3,589,221	2,938,810
Amortization of debt discount and success fees	1,055,753	720,713
Excess tax benefit	(539,675)	-
Non-cash compensation	653,263	377,760
Proceeds from the sale of and principal collections on loans held for sale	26,808,669	49,938,438
Origination of loans held for sale	(21,856,300)	(44,672,145)
Deferred tax provision	(413,372)	(88,409)
Purchase discount earned	(6,863,384)	(8,266,115)
Provision for loan losses	6,740,440	3,331,087
Changes in operating assets and liabilities:		
Accrued interest receivable	(5,689,454)	(2,906,914)
Other receivables	424,726	(3,142,805)
Other assets	(3,200,512)	927,569
Accounts payable and accrued expenses	2,626,379	5,393,985
Net cash provided by operating activities	<u>1,892,543</u>	<u>9,383,015</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	(9,279,056)	(8,654,784)
Purchase of notes receivable	(417,334,295)	(291,141,892)
Principal collections on notes receivable	207,537,510	202,769,050
Principal collections on loans held for investment	177,590,686	58,553,146
Origination of loans held for investment	(274,236,127)	(254,693,532)
Investment in marketable securities	150,905	(12,584,482)
Proceeds from sale of other real estate owned	23,245,259	25,649,992
Proceeds from sale of loans	60,810,585	8,375,669
Proceeds from sale of notes receivable	3,807,050	15,120,539
Purchase of building, furniture and equipment	(779,974)	(2,967,855)
Net cash used in investing activities	<u>(228,487,457)</u>	<u>(259,574,149)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	678,872,363	556,081,930
Principal payments of notes payable	(454,098,499)	(311,115,759)

Proceeds from financing agreements	318,708,828	301,055,917
Principal payments of financing agreements	(312,490,597)	(301,471,013)
Excess tax benefit	539,675	-
Payment of deferred financing costs	(4,031,328)	(4,664,925)
Exercise of options	335,805	225,190
Proceeds from issuance of common stock	-	12,656,006
Net cash provided by financing activities	<u>227,836,247</u>	<u>252,767,346</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,241,333	2,576,212
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>3,886,506</u>	<u>5,127,732</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,127,839</u>	<u>\$ 7,703,944</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for interest	<u>\$ 78,912,461</u>	<u>\$ 45,253,723</u>
Cash payments for taxes	<u>\$ 3,625,115</u>	<u>\$ 3,367,101</u>
NON-CASH INVESTING AND FINANCING ACTIVITY:		
Transfer of loans from held for sale to loans held for investment	<u>\$ 483,604</u>	<u>\$ 5,278,073</u>
Transfer from notes receivable and loans held for investment to OREO	<u>\$ 35,353,176</u>	<u>\$ 20,408,512</u>

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BUSINESS

As used herein references to the “Company,” “FCMC,” “we,” “our” and “us” refer to Franklin Credit Management Corporation, collectively with its subsidiaries.

We are a specialty consumer finance company primarily engaged in two related lines of business: (1) the acquisition, servicing and resolution of performing, reperforming and nonperforming residential mortgage loans and real estate assets; and (2) the origination of non-prime mortgage loans, both for our portfolio and for sale into the secondary market. We specialize in acquiring and originating loans secured by 1-to-4 family residential real estate that generally fall outside the underwriting standards of Fannie Mae and Freddie Mac and involve 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. We typically purchase loan portfolios at a discount, and originate loans with interest rates and fees, calculated to provide us with a rate of return adjusted to reflect the elevated credit risk inherent in the types of loans we acquire and originate. Unlike many of our competitors, we generally hold for investment the loans we acquire and a significant portion of the loans we originate.

From inception through September 30, 2006, we had purchased and originated in excess of \$3.64 billion in mortgage loans. As of September 30, 2006, we had total assets of \$1.56 billion, our portfolios of notes receivable and loans held for investment, net, totaled \$1.44 billion and we serviced approximately 30,000 loans.

Loan Acquisitions

Since commencing operations in 1990, we have become a nationally recognized buyer of portfolios of residential mortgage loans and real estate assets from a variety of financial institutions in the United States, including mortgage banks, commercial banks and thrifts, other traditional financial institutions and other specialty finance companies. These portfolios generally consist of one or more of the following types of mortgage loans:

- *performing loans* - loans to borrowers who are contractually current, but may have been delinquent in the past and which may have deficiencies relating to credit history, loan-to-value ratios, income ratios or documentation;
- *reperforming loans* - loans to borrowers who are not contractually current, but have recently made regular payments and where there is a good possibility the loans will be repaid in full; and
- *nonperforming loans* - loans to borrowers who are delinquent, not expected to cure, and for which a primary avenue of recovery is through the sale of the property securing the loan.

We sometimes refer collectively to these types of loans as “scratch and dent” or “S&D” loans.

We have developed a specialized expertise at risk-based pricing, credit evaluation and loan servicing that allows us to effectively evaluate and manage the potentially higher risks associated with this segment of the residential mortgage industry, including the rehabilitation or resolution of reperforming and nonperforming loans.

We refer to the S&D loans we acquire as “notes receivable.” In the third quarter of 2006, we purchased notes receivable with an aggregate unpaid principal balance of \$215.0 million at an aggregate purchase price equal to 94% of the face amount of the notes. During the nine months ended September 30, 2006, we acquired \$452.3 million of notes receivable at an aggregate purchase price equal to 92% of the face amount of the notes.

Loan Originations

We conduct our loan origination business through our wholly-owned subsidiary, Tribeca Lending Corp. (“Tribeca”), which we formed in 1997 in order to capitalize on our experience in evaluating and servicing scratch and dent residential mortgage loans. We originate primarily non-prime residential mortgage loans to individuals whose documentation, credit histories, income and other factors cause them to be classified as non-prime borrowers and to whom, as a result, conventional mortgage lenders often will not make loans. The loans we originate typically carry interest rates that are significantly higher than those of prime loans and we believe have fairly conservative loan-to-value ratios. The principal factor in our underwriting guidelines has historically been our determination of the borrower’s equity in his or her home and the related calculation of the loan-to-value ratio based on the appraised value of the property, and not, or to a lesser extent, on a determination of the borrower’s ability to repay the loan. We have recently begun in an increasing number of cases to gather and analyze additional information that allows us to assess to a reasonable degree the borrower’s ability and intent to repay the loan in connection with our credit decision. We have chosen to focus our marketing efforts on this segment of the 1-to-4 family residential real estate mortgage market in order to capitalize on our extensive experience in acquiring and servicing loans with similar performance characteristics.

During the third quarter of 2006, we originated \$91.7 million in non-prime mortgage loans, 87% of which were adjustable-rate (fixed-rate for the first two years) loans. We originated approximately 44% of these mortgage loans on a retail basis and the remainder through our wholesale network of mortgage brokers. During the nine months ended September 30, 2006, we originated \$296.1 million in non-prime mortgage loans, 92% of which were adjustable-rate (fixed rate for the first two years) loans. We originated approximately 36% of these mortgage loans on a retail basis and the remainder through our wholesale network of mortgage brokers. We hold the majority of mortgages we originate in our portfolio and sell the remainder for cash in the whole loan market, depending on market conditions and our own portfolio goals. During the third quarter of 2006, we sold \$51.5 million of newly originated loans to various investors for cash, realizing a pre-tax net gain of \$1.3 million.

Loan Servicing

We have a loan servicing capability that is focused on collections, loss mitigation and default management. In general, we seek to ensure that the loans we acquire and originate are repaid in accordance with the original terms or according to amended repayment terms negotiated with the borrowers. Because we expect our loans will experience above average delinquencies, erratic payment patterns and defaults, our servicing operation is focused on maintaining close contact with our 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 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 extensive experience in property management and the sale of residential properties.

2. RESTATEMENT

In connection with the preparation of the Annual Report on Form 10-K for the year ended December 31, 2005, management identified certain errors in and restated its previously issued financial statements for the years ended December 31, 2004 and 2003, for the first three quarters in 2005 and the quarterly periods in 2004. These restatements and resulting revisions related principally to (i) the accounting treatment of certain fees and costs related to the successful acquisition of pools of residential mortgage loans (“deferred acquisition costs”) and (ii) the accounting treatment of success fees that are both currently and potentially payable to the Company’s primary lending bank following repayment of existing term debt (“success fees”).

In addition, the Company restated previously reported "Cash and cash equivalents" to classify the restricted portion separately on the balance sheet with related adjustments to the statements of cash flows, and restated the presentation of deferred origination costs for loans sold by reclassifying these costs from "Collection, general and administrative" expenses to "Gain on sale of originated loans held for sale." Neither restatement had an impact on previously reported net income. The Company's restated financial statements also include certain other adjustments that were immaterial individually and in the aggregate.

The net after-tax effects of the restatement on the Company's consolidated net income for the three and nine months ended September 30, 2005 were as follows:

	Net Income (As Previously Reported)	Deferred Acquisition Costs (SFAS No. 91)	Success Fees (SFAS No. 133)	Other	Net Income (Restated)
Three months ended September 30, 2005	\$1,842,800	\$(159,054)	\$(186,373)	\$158,065	\$1,655,438
Nine months ended September 30, 2005	\$7,022,291	\$(405,264)	\$(394,092)	\$177,450	\$6,400,385

The significant effects of the restatement on the Company's consolidated financial statements for the three and nine months ended September 30, 2005 follow.

Restated Statement of Income Information for Three and Nine Months Ended September 30, 2005 (Unaudited)

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	As Previously Reported	Restated	As Previously Reported	Restated
REVENUES:				
Gain on sale of loans held for sale	\$ 542,588	\$ 229,906	\$ 2,232,681	\$ 1,136,139
Prepayment penalties and other income	2,245,954	1,753,121	6,291,800	4,797,806
Total revenues	31,678,858	30,873,343	90,711,884	88,121,348
OPERATING EXPENSES:				
Interest expense	18,018,930	18,283,805	47,319,051	47,777,134
Collection, general and administrative	7,600,208	6,874,657	23,368,940	21,462,817
Total expenses	28,297,552	27,836,876	77,737,885	76,289,845
INCOME BEFORE PROVISION FOR INCOME TAXES				
TAXES	3,381,306	3,036,467	12,973,999	11,831,503
PROVISION FOR INCOME TAXES	1,538,506	1,381,029	5,951,708	5,431,118
NET INCOME	1,842,800	1,655,438	7,022,291	6,400,385
EARNINGS PER SHARE:				
Basic	\$ 0.26	\$ 0.23	\$ 1.09	\$ 1.01
Diluted	\$ 0.24	\$ 0.22	\$ 1.00	\$ 0.91
Weighted average shares, basic	7,158,406	7,060,989	6,444,943	6,353,526
Weighted average shares, diluted	7,825,406	7,610,161	7,043,554	7,005,029

Restated Statement of Cash Flows Information for Nine Months Ended September 30, 2005 (Unaudited)

	Nine Months Ended September 30, 2005	
	As Previously Reported	Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$7,022,291	\$6,400,385
Adjustments to reconcile income to net cash provided by/(used in) operating activities:		
Gain on sale of originated loans held for sale	(2,232,681)	(1,136,139)
Amortization of deferred costs and fees on originated loans	-	1,289,376
Amortization of debt discount and success fees	-	720,713
Non-cash compensation	430,190	377,760
Proceeds from the sale of and principal collections on loans held for sale	51,352,615	49,938,438
Changes in operating assets and liabilities:		
Deferred income tax	2,368,276	(88,409)
Other assets	(849,291)	927,569
Accounts payable and accrued expenses	4,029,934	5,393,985
Net cash provided by operating activities	4,972,820	9,383,015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	-	(8,654,784)
Loan fees	(2,481,179)	-
Net cash used in investing activities	(251,097,785)	(259,574,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of deferred financing costs	-	(4,664,925)
Net cash provided by financing activities	257,432,272	252,767,346
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,307,307	2,576,212
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,648,271	5,127,732
CASH AND CASH EQUIVALENTS, END OF PERIOD	30,955,578	7,703,944

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In the opinion of management, all adjustments, consisting of all normal and recurring items, which are necessary for a fair presentation, have been included.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The most significant estimates of the Company are allowance for loan losses, discounts on acquired loans and success fee liability. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility and credit exposure. 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. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The operating and financial results for interim periods reported are not necessarily indicative of the results that may be expected for the full year.

Originated Loans Held for Investment - During the third quarter of 2006, the Company modified its estimate of the collectibility of accrued interest on certain fully secured loans that are in the foreclosure process. The Company now continues to accrue interest on secured real estate first mortgage loans originated by the Company up to 209 days contractually delinquent with a recency payment in the last 179 days, and that are judged to be fully recoverable for both principal and accrued interest based on a foreclosure analysis, which includes and updated estimate of the realizable value of the property securing the loan. This change in estimate increased interest income by approximately \$1.7 million (pre-tax) in the three months ended September 30, 2006.

Generally, interest is accrued on loans that are performing and are carried at the amortized cost of the loan. In general, interest on originated loans held for investment is calculated based on contractual interest rates applied to daily balances of the principal amount outstanding using the accrual method. The Company's decision to revise its estimate of collectibility was based on recent collection information, which shows that the Company is collecting 100% of principal and between 95% to 100% of delinquent interest when these loans in the foreclosure process are paid off or settled.

The accrual of interest is discontinued when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful, which can be less than 209 days contractually delinquent with a recency payment in the last 179 days. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Subsequent recognition of income occurs only to the extent payment is received, subject to management's assessment of the collectibility of the remaining interest and principal. A non-accrual loan is restored to an accrual status when the collectibility of interest and principal is no longer in doubt and past due interest is recognized at that time.

Stock-Based Compensation Plans - The Company maintains share-based payment arrangements under which employees are awarded grants of restricted stock, non-qualified stock options, incentive stock options and other forms of stock-based payment arrangements. Prior to January 1, 2006, the Company accounted for these awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") as permitted under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Accordingly, compensation cost for stock options was not recognized as long as the stock options granted had an exercise price equal to the market price of the Company's common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost recognized beginning January 1, 2006 includes compensation cost for all share-based payment arrangements, requisite services rendered prior to, but not yet vested as of December 31, 2005, based on the grant date fair value and expense attribution methodology determined in accordance with the original provisions of SFAS 123. Compensation cost for all share-based payment arrangements granted subsequent to December 31, 2005, is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). In addition, the effect of forfeitures on restricted stock (if any), is estimated when recognizing compensation cost. Results for prior periods have not been recast for the adoption of SFAS No. 123(R).

The compensation cost recognized in income for the plans described below was \$169,025 and \$84,521 for the three months ended September 30, 2006 and 2005, respectively. The compensation cost recognized in income for the plans described below was \$653,263 and \$377,760 for the nine months ended September 30, 2006 and 2005, respectively.

Prior to January 1, 2006, our stock-based compensation was accounted for under the recognition and measurement principles of APB Opinion 25 and related interpretations. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all awards during the three and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income - as reported	\$1,655,438	\$6,400,385
Stock-based compensation expense determined under fair value method, net of related tax effects ⁽¹⁾	(123,317)	(228,805)
Net income - pro forma	<u>\$1,532,121</u>	<u>\$6,171,580</u>
Earnings per share:		
Basic - as reported	\$0.23	\$1.01
Basic - pro forma	\$0.22	\$0.97
Diluted - as reported	\$0.22	\$0.91
Diluted - pro forma	\$0.20	\$0.88

- (1) The stock-based compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards.

The Company awards stock options to certain officers and directors under the Franklin Credit Management Corporation 1996 Stock Incentive Plan (“the Plan”) as amended. The Compensation Committee of the Board of Directors (the “Compensation Committee”) determines which eligible employees or directors will receive awards, the types of awards to be received, and the terms and conditions thereof.

Options granted under the Plan may be designated as either incentive stock options or non-qualified stock options. The Compensation Committee determines the terms and conditions of the option, including the time or times at which an option may be exercised, the methods by which such exercise price may be paid, and the form of such payment. Options are generally granted with an exercise price equal to the market value of the Company’s stock at the date of grant. These option awards generally vest over 1 to 3 years and have a contractual term of 10 years.

Prior to January 1, 2006, the Company estimated the fair value of stock options granted on the date of grant using the Black-Scholes option-pricing model. The table below presents the assumptions used to estimate the fair value of stock options granted on the date of grant using the Black-Scholes option-pricing model for the nine months ended September 30, 2006 and 2005. The risk-free rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company uses historical data to estimate stock option exercise. The expected term of stock options granted is derived from the output of the model and represents the period of time that stock options granted are expected to be outstanding. The estimates of fair value from these models are theoretical values for stock options and changes in the assumptions used in the models could result in materially different fair value estimates. The actual value of the stock options will depend on the market value of the Company’s common stock when the stock options are exercised.

	Nine Months Ended	
	September 30,	
	2006	2005
Risk-free interest rate	3.85	% 5.60 %
Weighted average volatility	47.57	108.76
Expected lives (years)	6.0	6.0

A summary of the status of the Company's stock option awards as of September 30, 2006 and changes during the nine month period then ended is presented below:

	Shares	Weighted Average Exercise	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, January 1, 2006	667,500	\$2.88	5.1 years	\$3,901,085
Granted	15,000	7.73	10 years	-
Exercised	130,000	1.39	1.75 years	723,140
Canceled	-	-	-	-
Forfeited	20,000	10.70	8.5 years	26,950
Balance, September 30, 2006	532,500	3.05	5.5 years	\$2,629,260
Options exercisable at September 30, 2006	501,750	\$2.40	5.32 years	

There were 15,000 stock option awards granted, which vested at the time of grant, during the nine months ended September 30, 2006. A total of 106,500 options were granted to management and the board of directors during the nine months ended September 30, 2005.

As of September 30, 2006, there was \$178,811 of unrecognized compensation cost related to the Company's stock option awards. The weighted average period over which this cost is expected to be recognized is one year. Cash received from the exercise of stock options for the nine months ended September 30, 2006 and 2005 was \$335,805 and \$225,190, respectively.

The Company's policy is to issue newly issued shares upon the exercise of options.

2006 Stock Incentive Plan

On May 24, 2006, the shareholders approved the 2006 Stock Incentive Plan to be effective June 15, 2006. This approval authorized and reserved 750,000 shares for grant in addition to the remaining amount under the 1996 stock option incentive plan. Awards can consist of non-qualified stock options, incentive stock options, stock appreciation rights, shares of restricted stock, restricted stock units, shares of unrestricted stock, performance shares and dividend equivalent rights are authorized. Grants of non-qualified stock options, incentive stock options and stock appreciation rights under the 2006 Stock Incentive Plan generally qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code, and, therefore, are not subject to the provisions of Section 162(m), which disallow a federal income tax deduction for certain compensation in excess of \$1 million per year paid to the Company's Chief Executive Officer and each of its four other most highly compensated executive officers.

- **Restricted Stock** - Restricted shares of the Company's common stock have been awarded to certain executives. The stock awards are subject to restrictions on transferability and other restrictions, and step vest over a three year period.

A summary of the status of the Company's restricted stock awards as of September 30, 2006 and changes during the period then ended is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested balance, January 1, 2006	27,000	\$12.92
Granted	122,000	7.82
Vested	31,000	9.12
Forfeited	<u>8,000</u>	13.00
Non-vested balance, September 30, 2006	<u>110,000</u>	\$8.29

The total fair value of the Company's restricted stock that vested during the nine months ended September 30, 2006 was \$328,350.

As of September 30, 2006, there was \$820,521 of unrecognized compensation cost related to the Company's restricted stock awards.

Discounts on Acquired Loans - Effective January 1, 2005, as a result of the required adoption of SOP 03-3 the Company was required to change its accounting for loans acquired subsequent to December 31, 2004, which have evidence of deterioration of credit quality since origination and for which it is probable, at the time of our acquisition, that the Company will be unable to collect all contractually required payments. For these loans, the excess of the undiscounted contractual cash flows over the undiscounted cash flows estimated by us at the time of acquisition is not accreted into income (nonaccretable discount). The amount representing the excess of cash flows estimated by us at acquisition over the purchase price is accreted into purchase discount earned over the life of the loan (accretable discount).

The nonaccretable discount is not accreted into income. If cash flows cannot be reasonably estimated for any loan, and collection is not probable, the cost recovery method of accounting may be used. Under the cost recovery method, any amounts received are applied against the recorded amount of the loan.

Subsequent to acquisition, if cash flow projections improve, and it is determined that the amount and timing of the cash flows related to the nonaccretable discount are reasonably estimable and collection is probable, the corresponding decrease in the nonaccretable discount is transferred to the accretable discount and is accreted into interest income over the remaining life of the loan on the interest method. If cash flow projections deteriorate subsequent to acquisition, the decline is accounted for through the allowance for loan losses.

There is judgment involved in estimating the amount of the loan's future cash flows. The amount and timing of actual cash flows could differ materially from management's estimates, which could materially affect our financial condition and results of operations. Depending on the timing of an acquisition, the initial allocation of discount will be made primarily to nonaccretable discount until the Company has boarded all loans onto its servicing system; at that time, any cash flows expected to be collected over the purchase price will be transferred to accretable discount. Generally, the allocation will be finalized no later than ninety days from the date of purchase.

For loans not addressed by SOP 03-3 that are acquired subsequent to December 31, 2004, the discount, which represents the excess of the amount of reasonably estimable and probable discounted future cash collections over the purchase price, is accreted into purchase discount earned using the interest method over the term of the loans. This is consistent with the method the Company utilizes for its accounting for loans purchased prior to January 1, 2005, except that for these loans an allowance allocation was also made at the time of acquisition.

The following tables set forth certain information relating to the activity in the accretable and nonaccretable discounts, which are shown as a component of notes receivable principal on the balance sheet, in accordance with SOP 03-3 for the periods indicated:

	Three Months Ended	
	September 30,	
	2006	2005
<u>Accretable Discount</u>		
Balance, beginning of period	\$14,240,528	\$6,721,220
New Acquisitions	4,000	2,964,243
Accretion	(1,010,378)	(460,587)
Transfers from nonaccretable	695,508	-
Net reductions relating to loans sold	(93,020)	(108,110)
Net reductions relating to loans repurchased	(4,297)	(2,015)
Other	32,530	(55,607)
Balance, end of period	<u>\$13,864,871</u>	<u>\$9,059,144</u>

<u>Nonaccretable Discount</u>		
Balance, beginning of period	\$39,212,462	\$14,624,151
New Acquisitions	13,741,125	124,147
Transfers to accretable	(695,508)	-
Net reductions relating to loans sold	(77,996)	(11,391)
Net reductions relating to loans repurchased	-	(1,881)
Other, loans transferred to OREO	(3,036,816)	(81,055)
Balance, end of period	<u>\$49,143,267</u>	<u>\$14,653,971</u>

	Nine Months Ended	
	September 30,	
	2006	2005
<u>Accretable Discount</u>		
Balance, beginning of period	\$11,360,617	\$-
New Acquisitions	2,549,873	19,233,009
Accretion	(2,936,851)	(717,572)
Transfers from nonaccretable	2,883,125	(9,221,874)
Net reductions relating to loans sold	(93,020)	(163,857)
Net reductions relating to loans repurchased	(6,486)	(14,954)
Other	107,613	(55,608)
Balance, end of period	<u>\$13,864,871</u>	<u>\$9,059,144</u>

<u>Nonaccretable Discount</u>		
Balance, beginning of period	\$23,981,013	\$-
New Acquisitions	32,430,347	14,807,954

Transfers to accretable	(2,883,125)	-
Net reductions relating to loans sold	(85,881)	(71,047)
Net reductions relating to loans repurchased	(204,026)	(1,881)
Other, loans transferred to OREO	(4,095,061)	(81,055)
Balance, end of period	<u>\$49,143,267</u>	<u>\$14,653,971</u>

The Company purchased \$215,021,204 and \$452,311,109 of loans subject to SOP 03-3, respectively, during the three and nine months ended September 30, 2006. The outstanding balance of notes receivable subject to SOP 03-3 at September 30, 2006 was \$762,320,937.

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

The Company's management evaluates the performance of each segment based on profit or loss from operations before unusual and extraordinary items and income taxes.

	For the Three Months Ended	
	September 30,	
	2006	2005
CONSOLIDATED REVENUE:		
Portfolio asset acquisition and resolution	\$28,939,922	\$23,042,339
Mortgage banking	13,526,735	7,831,004
Consolidated revenue	<u>\$42,466,657</u>	<u>\$30,873,343</u>
CONSOLIDATED NET INCOME:		
Portfolio asset acquisition and resolution	\$(1,558,423)	\$724,414
Mortgage banking	994,468	931,024
Consolidated net (loss)/income	<u>\$(563,955)</u>	<u>\$1,655,438</u>
	For the Nine Months Ended	
	September 30,	
	2006	2005
CONSOLIDATED REVENUE:		
Portfolio asset acquisition and resolution	\$84,774,301	\$69,562,213
Mortgage banking	36,798,652	18,559,135
Consolidated revenue	<u>\$121,572,953</u>	<u>\$88,121,348</u>
CONSOLIDATED NET INCOME:		
Portfolio asset acquisition and resolution	\$(3,149,719)	\$3,899,932
Mortgage banking	2,983,100	2,500,453
Consolidated net (loss)/income	<u>\$(166,619)</u>	<u>\$6,400,385</u>

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
CONSOLIDATED ASSETS:		
Portfolio asset acquisition and resolution	\$1,116,766,233	\$924,564,871
Mortgage banking	<u>447,097,335</u>	<u>403,675,718</u>
Consolidated assets	<u>\$1,563,863,568</u>	<u>\$1,328,240,589</u>

Recent Accounting Pronouncements - On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*,” an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The Company will adopt FIN 48 on January 1, 2007. The cumulative effect, if any, of applying FIN 48 will be recorded as an adjustment to the beginning balance of “Retained earnings.” Management is currently evaluating the effect of FIN 48 on the Company.

On February 16, 2006, the FASB issued SFAS No. 155, “*Accounting for Certain Hybrid Instruments*” (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS 133. The statement is effective as of January 1, 2007, with earlier adoption permitted. Management is currently evaluating the effect of the statement, if any, on the Company’s results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “*Fair Value Measurements*” (SFAS 157). SFAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is currently evaluating the effect of the statement, if any, on the Company’s results of operations and financial condition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement

As discussed in Note 2 of the Consolidated Financial Statements, Franklin Credit Management Corporation restated its historical consolidated financial statements for the fiscal years ended December 31, 2004 and 2003, for the first three quarters in 2005 and the quarterly periods in 2004. The accompanying Management's Discussion and Analysis reflects the effects of the restatement.

General

Safe Harbor Statements. Statements contained herein that are not historical fact may be forward-looking statements 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, 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, and changes in the level of growth in the finance and housing markets; (ii) the status of the Company's relations with the Company's sole lender and the lender's willingness to extend additional credit to the Company; (iii) the availability for purchases of additional loans; (iv) the availability of sub-prime borrowers for the origination of additional loans; (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; and (viii) other risks detailed from time to time in the Company's 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 "Interest Rate Risk" and "Real Estate Risk" in Item 3 herein, under the caption "Risk Factors" in Item 1A herein, and under the caption "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, all of 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 Estimates

The Company's significant accounting policies are described in Note 3 to the December 31, 2005 consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. We have identified notes receivable and income recognition, discounts on acquired loans, allowance for loan losses, originated loans held for sale, originated loans held for investment, other real estate owned and success fees 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.

Portfolio Characteristics

Overall Portfolio

At September 30, 2006, our portfolio (excluding OREO) consisted of \$1.17 billion of notes receivable (inclusive of purchase discount not reflected on the face of the balance sheet), \$410.1 million of loans held for investment and \$7.7 million of loans held for sale. Our total loan portfolio grew 17% to \$1.58 billion as of September 30, 2006, from \$1.36 billion at December 31, 2005. Not boarded loans represent loans serviced by the seller on a temporary basis. Included in not boarded loans is a \$116.6 million pool of loans acquired on September 29, 2006. The following table sets forth information regarding the types of properties securing our loans.

Property Types	Percentage of Total	
	Principal Balance	Principal Balance
Residential 1-4 family	\$1,172,210,436	74.04 %
Condos, co-ops, PUD dwellings	138,646,211	8.76 %
Manufactured homes	22,950,301	1.45 %
Multi-family	1,063,149	0.07 %
Secured, property type unknown	44,586,128	2.82 %
Commercial	2,401,119	0.15 %
Unsecured loans	18,600,365	1.17 %
Other	320,104	0.02 %
Not boarded	182,376,537	11.52 %
Total	<u>\$1,583,154,350</u>	<u>100.00 %</u>

Geographic Dispersion. The following table sets forth information regarding the geographic location of properties securing the loans in our portfolio at September 30, 2006:

Location	Percentage of Total	
	Principal Balance	Principal Balance
New York	\$169,260,260	10.69 %
New Jersey	146,524,881	9.26 %
California	122,712,896	7.75 %
Florida	93,859,322	5.93 %
Pennsylvania	76,644,719	4.84 %
Ohio	72,716,812	4.59 %
Texas	71,374,521	4.51 %
Michigan	51,010,182	3.22 %
Georgia	45,963,949	2.90 %
Illinois	45,659,326	2.89 %
All Others	687,427,482	43.42 %
Total	<u>\$1,583,154,350</u>	<u>100.00 %</u>

Amounts included in the tables above under the heading “Principal Balance” represent the aggregate unpaid principal balance outstanding of notes receivable, loans held for investment and loans held for sale.

Asset Quality

Delinquency. The following tables provide a breakdown of the delinquency status of our notes receivable, loans held for investment and loans held for sale portfolios as of the dates indicated, by principal balance. Because we specialize in acquiring and servicing loans with erratic payment patterns and an elevated level of credit risk, a substantial portion of the loans we acquire are in various stages of delinquency, foreclosure and bankruptcy when we acquire them. We monitor the payment status of our borrowers based on both contractual delinquency and recency delinquency. 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 when we receive notice of a bankruptcy filing from the bankruptcy court.

	Days Past Due	September 30, 2006				
		Contractual Delinquency		Recency Delinquency		
		Amount	%	Amount	%	
Current	0 - 30 days	\$786,552,422	50	%\$910,635,040	58	%
Delinquent	31 - 60 days	87,119,194	5	% 36,810,730	2	%
	61 - 90 days	11,749,264	1	% 23,937,836	1	%
	90+ days	142,342,422	9	% 56,379,696	4	%
Bankruptcy	0 - 30 days	41,750,029	3	% 106,879,192	7	%
Delinquent	31 - 60 days	9,008,145	1	% 8,576,306	1	%
	61 - 90 days	4,766,021	-	4,931,368	-	
	90+ days	102,485,338	6	% 37,622,667	2	%
Foreclosure	0 - 30 days	679,077	-	9,935,003	1	%
Delinquent	31 - 60 days	1,156,319	-	2,654,996	-	
	61 - 90 days	561,828	-	5,774,443	-	
	90+ days	212,607,754	13	% 196,640,536	12	%
Not Boarded⁽¹⁾		182,376,537	12	% 182,376,537	12	%
	Total	\$1,583,154,350	100	%\$1,583,154,350	100	%
Total loans	0 - 30 days	\$828,981,528	53	%\$1,027,449,235	66	%

- (1) Not boarded represents recently acquired loans serviced by the seller on a temporary basis and recently originated loans that have been funded but have not yet been entered into the servicing system. These loans include a \$116.6 million pool of loans (unpaid principal balance) acquired on September 29, 2006, all of which were current 0 - 30 days on a contractual basis at the time of acquisition.

December 31, 2005

	Days Past Due	Contractual Delinquency		Recency Delinquency		
		Amount	%	Amount	z%	
Current	0 - 30 days	\$687,887,057	51	791,779,227	58	%
Delinquent	31 - 60 days	76,225,331	6	36,316,774	3	%
	61 - 90 days	19,629,463	1	15,938,651	1	%
	90+ days	139,882,279	10	79,589,478	6	%
	Bankruptcy	0 - 30 days	38,018,748	3	108,931,183	8
Delinquent	31 - 60 days	11,207,345	1	7,845,350	1	%
	61 - 90 days	4,725,448	-	4,851,743	-	
	90+ days	113,808,976	8	46,132,241	3	%
	Foreclosure	0 - 30 days	793,327	-	8,414,493	1
Delinquent	31 - 60 days	606,737	-	2,934,832	-	
	61 - 90 days	895,794	-	2,444,743	-	
	90+ days	131,112,327	10	119,614,117	9	%
	Not Boarded⁽¹⁾		132,573,874	10	132,573,874	10
	Total	\$1,357,366,706	100	\$1,357,366,706	100	%
Total loans	0 - 30 days	\$726,699,132	54	\$909,124,903	67	%

(1) Not boarded represents recently acquired loans serviced by the seller on a temporary basis and recently originated loans that have been funded but have not yet been entered into the servicing system. A portion of not boarded loans has been included in the appropriate delinquency categories based on information provided by the seller-servicer. The remaining portion of not boarded loans, for which information has not been entered into our servicing system, is shown in the not boarded category.

Notes Receivable Portfolio

At September 30, 2006, our notes receivable portfolio, which consists of purchased loans, included approximately 28,100 loans with an aggregate unpaid principal balance (“UPB”) of \$1.17 billion and a net UPB of \$1.11 billion (after allowance for loan losses of \$55 million), compared with approximately 23,684 loans with an aggregate UPB of \$970 million and a net UPB of \$903 million (after allowance for loan losses of \$67 million) as of December 31, 2005. Impaired loans comprise and will continue to comprise a significant portion of our portfolio. Many of the loans we acquire are impaired loans at the time of purchase. We generally purchase such loans at significant discounts and have considered the payment status, underlying collateral value and expected cash flows when determining our purchase price. While interest income is not accrued on impaired loans, interest and fees are received on a portion of loans classified as impaired. The following table provides a breakdown of the notes receivable portfolio by year:

	September 30, 2006	December 31, 2005
Performing loans	\$716,294,477	\$536,974,892
Allowance for loan losses	8,219,839	14,266,781
Total performing loans, net of allowance for loan losses	<u>708,074,638</u>	<u>522,708,111</u>
Impaired loans	266,679,937	244,986,933
Allowance for loan losses	47,141,285	43,691,572
Total impaired loans, net of allowance for loan losses	<u>219,538,652</u>	<u>201,295,361</u>
Not yet boarded onto servicing system	182,376,537	188,037,218
Allowance for loan losses	-	9,317,802
Not yet boarded onto servicing system, net of allowance for loan losses	<u>182,376,537</u>	<u>178,719,416</u>
Total notes receivable, net of allowance for loan losses	<u>1,109,989,827</u>	<u>902,722,888</u>
*Accretable Discount	<u>13,864,871</u>	<u>11,360,617</u>
*Nonaccretable Discount	<u>49,143,267</u>	<u>23,981,013</u>
Total Notes Receivable, net of allowance for loan losses and accretable/nonaccretable discounts	<u>\$1,046,981,689</u>	<u>\$867,381,258</u>

* 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 to be collected.

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 and excluding loans purchased but not yet boarded onto our servicing operations system as of September 30, 2006 of \$182,376,537.

	September 30, 2006	December 31, 2005
<i>Performing Loans:</i>		
Fixed-rate Performing Loans	\$600,769,766	\$393,982,311
Adjustable Performing Loans	107,304,872	128,725,800
<i>Total Performing Loans</i>	<u>\$708,074,638</u>	<u>\$522,708,111</u>
<i>Impaired Loans:</i>		
Fixed-rate Impaired Loans	\$178,712,801	\$167,093,004
Adjustable Impaired Loans	40,825,852	34,202,357
<i>Total Impaired Loans</i>	<u>\$219,538,653</u>	<u>\$201,295,361</u>
Total Notes	<u>\$927,613,291</u>	<u>\$724,003,472</u>
*Accretable Discount	<u>\$13,864,871</u>	<u>\$11,360,617</u>
*Nonaccretable Discount	<u>\$39,694,604</u>	<u>\$13,953,006</u>
Total Notes Receivable, net of allowance for loan losses and accretable/ nonaccretable discounts, excluding loans not boarded onto servicing systems	<u>\$874,053,816</u>	<u>\$698,689,849</u>

Loan Acquisitions

We purchased approximately \$215.0 million in assets (principally residential single-family first and second lien loans) during the third quarter of 2006, compared with approximately \$121.6 million in assets (principally residential single-family first and second lien loans) during the third quarter of 2005. For the nine months ended September 30, 2006, we purchased \$452.3 million of loans as compared with \$315.2 million for the same period in 2005. The following table sets forth the amounts and purchase prices of our mortgage loan acquisitions during the three and nine months ended September 30, 2006 and September 30, 2005:

	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2006	2005	2006	2005
Number of loans	3,650	2,329	14,058	7,491
Aggregate unpaid principal balance at acquisition	\$215,021,204	\$121,637,069	\$452,311,109	\$315,220,868
Purchase price	\$201,280,078	\$117,734,210	\$417,334,296	\$291,141,892
Purchase price percentage	94	% 97	% 92	% 92
Percentage of 1 st liens	5	% 32	% 9	% 36
Percentage of 2 nd liens	93	% 68	% 90	% 64
Percentage of Other	2%*	-	1	% -

* Represents \$5.0 million of REO that was acquired in the third quarter of 2006.

Notes Receivable Dispositions

In the ordinary course of our loan servicing process and through the periodic review of our portfolio of purchased loans, there are certain loans that, for various reasons, we determine to sell. We typically sell these loans on a whole-loan basis, servicing-released for cash. The following table sets forth our dispositions of purchased loans during the three and nine months ended September 30, 2006 and September 30, 2005:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2006	2005	2006	2005
Sale of Performing Loans				
Aggregate unpaid principal balance	\$3,784,126	\$6,236,508	\$3,784,126	\$13,573,871
Gain on sale	\$94,862	\$644,985	\$94,862	\$1,263,866
Sale of Non-Performing Loans				
Aggregate unpaid principal balance	\$-	\$-	\$161,149	\$23,491,405*
Gain on sale	\$-	\$-	\$69,049	\$47,021
Total gain on sale	\$94,862	\$644,985	\$163,911	\$1,310,887

* Sale of credit card portfolio. The carrying value of this portfolio was \$1.2 million.

Tribeca's Loan Originations

The following table sets forth Tribeca's loan originations, as well as dispositions, during the three and nine months ended September 30, 2006 and September 30, 2005.

	Three Months Ended September		Nine Months Ended September		
	30,		30,		
	2006	2005	2006	2005	
Number of loans originated	376	476	1,320	1,349	
Original principal balance	\$91,679,220	\$106,058,640	\$296,092,427	\$299,365,677	
Average loan amount	\$243,828	\$222,812	\$224,312	\$221,917	
Originated as fixed	\$11,813,000	\$11,347,840	\$22,292,900	\$28,624,745	
Originated as ARM*	\$79,866,220	\$94,710,800	\$273,799,527	\$270,740,932	
Number of loans sold	235	69	379	254	
Aggregate face value	\$51,510,266	\$14,276,617	\$85,304,214	\$50,879,175	
Gain on sale	\$1,349,724	\$229,906	\$1,686,520	\$1,136,139	
Gain on sale percentage	2.62	% 1.61	% 1.98%**	2.23	%

* Originated ARM loans are principally fixed-rate for the first two years and six-month adjustable-rate for the remaining term.

** In the nine months ended September 30, 2006, we sold \$7.5 million of originated loans held for sale to investors at a loss of \$269,000; these loans did not meet investor requirements.

During the third quarter of 2006, we sold \$40.4 million of newly originated Liberty Loans to various investors on a whole loan basis for cash.

Property Types of Originated Loans. At September 30, 2006, Tribeca's portfolio consisted of \$410.1 million of loans originated and held for investment and \$7.7 million of loans held for sale. Tribeca's portfolio of loans held for investment grew 10% to \$410.1 million as of September 30, 2006, from \$374.5 million at December 31, 2005. The following table sets forth information regarding the types of properties securing Tribeca's portfolio of loans held for investment.

Property Types	Loans Held for Investment at September 30, 2006	
	Principal Balance	Percentage of Total Principal Balance
Residential 1-4 family	\$382,899,708	93.36 %
Condos, co-ops, PUD dwellings	25,194,828	6.14 %
Manufactured homes	83,824	0.02 %
Multi-family	132,745	0.03 %
Commercial	1,704,452	0.42 %
Unsecured loans	122,396	0.03 %
Total	\$410,137,953	100.00 %

Geographic Dispersion of Originated Loans. The following table sets forth information regarding the geographic location of properties securing all loans originated by Tribeca during the nine months ended September 30, 2006 and the aggregate portfolio of loans originated and held for investment at September 30, 2006:

Location	Loans Originated for Nine Months Ended September 30, 2006		Loans Held for Investment at September 30, 2006	
	Principal Balance	Percentage of Total Principal Balance	Principal Balance	Percentage of Total Principal Balance
New Jersey	\$95,686,394	32.32 %	\$125,154,721	30.51 %
New York	88,936,758	30.04 %	126,248,264	30.78 %
Pennsylvania	20,720,525	7.00 %	39,553,218	9.64 %
Florida	18,204,324	6.15 %	22,363,934	5.45 %
Maryland	16,005,274	5.40 %	17,266,272	4.21 %
Massachusetts	15,303,800	5.17 %	20,430,005	4.98 %
Virginia	11,171,778	3.77 %	14,419,407	3.52 %
Connecticut	9,363,850	3.16 %	13,896,092	3.39 %
California	5,395,700	1.82 %	9,702,213	2.37 %
North Carolina	3,206,200	1.08 %	3,107,150	0.76 %
All Others	12,097,824	4.09 %	17,996,677	4.39 %
Total	\$296,092,427	100.00 %	\$410,137,953	100.00 %

Delinquency. The following tables provide a breakdown of the delinquency status of our loans held for investment and loans held for sale portfolios as of the dates indicated, by principal balance. Because we specialize in originating residential mortgage loans for individuals with credit histories, income and/or factors that cause them to be classified as non-prime borrowers, a substantially greater portion of the loans we originate experience varying degrees of delinquency, foreclosure and bankruptcy than those of prime lenders. However, due to the fairly conservative loan-to-value ratios, we typically collect full payment of principal and interest on delinquent loans that are in the process of foreclosure. We monitor the payment status of our borrowers based on both contractual delinquency and recency delinquency. 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 when we receive notice of a bankruptcy filing from the bankruptcy court.

	Days Past Due	September 30, 2006				
		Contractual Delinquency		Recency Delinquency		
		Amount	%	Amount	%	
Current	0 - 30 days	\$216,035,089	52	258,941,831	62	%
Delinquent	31 - 60 days	34,456,168	9	15,726,228	3	%
	61 - 90 days	1,670,042	-	12,060,222	3	%
	90+ days	58,328,911	14	23,761,929	6	%
	Bankruptcy	0 - 30 days	346,261	-	1,128,284	-
Delinquent	31 - 60 days	55,736	-	691,050	-	
	61 - 90 days	-	-	316,180	-	
	90+ days	5,985,334	1	4,251,817	1	%
	Foreclosure*	0 - 30 days	139,768	-	2,980,346	1
Delinquent	31 - 60 days	608,168	-	297,511	-	
	61 - 90 days	-	-	2,543,476	1	%
	90+ days	100,177,922	24	95,104,525	23	%
	Total		<u>\$417,803,399</u>	<u>100</u>	<u>417,803,399</u>	<u>100</u>
Total loans	0 - 30 days	<u>\$216,521,118</u>	<u>52</u>	<u>263,050,461</u>	<u>63</u>	<u>%</u>

* \$100.9 million of loans were in various stages of the foreclosure process; our servicing practice for this portfolio is to move loans into our foreclosure collection process at an early stage of delinquency.

December 31, 2005

	Days Past Due	Contractual Delinquency		Recency Delinquency		
		Amount	%	Amount	z%	
Current	0 - 30 days	\$277,508,660	72	309,162,953	80	%
Delinquent	31 - 60 days	29,203,954	8	15,606,343	4	%
	61 - 90 days	8,504,760	2	7,192,915	2	%
	90+ days	23,073,068	6	6,328,231	2	%
Bankruptcy	0 - 30 days	859,676	-	1,697,063	-	
Delinquent	31 - 60 days	341,989	-	101,250	-	
	61 - 90 days	279,669	-	66,490	-	
	90+ days	1,842,298	-	1,458,829	-	
Foreclosure*	0 - 30 days	-	-	2,659,754	1	%
Delinquent	31 - 60 days	606,737	-	1,113,952	-	
	61 - 90 days	669,889	-	638,318	-	
	90+ days	44,476,962	12	41,341,564	11	%
	Total	\$387,367,662	100	387,367,662	100	%
Total loans	0 - 30 days	\$278,368,336	72	\$313,519,770	81	%

* \$45.8 million of loans were in various stages of the foreclosure process; our servicing practice for this portfolio is to move loans into our foreclosure collection process at an early stage of delinquency.

Other Real Estate Owned

The following table sets forth our real estate owned, or OREO portfolio, and OREO sales during the three and nine months ended September 30, 2006 and September 30, 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Other real estate owned	\$22,717,436	\$16,576,369	\$22,717,436	\$16,576,369
OREO as a percentage of total assets	1.45	% 1.44	% 1.45	% 1.44
OREO sold	\$6,096,869	\$8,571,344	\$21,927,070	\$24,458,300
Gain on sale	\$70,056	\$535,308	\$1,312,339	\$1,191,691

Results of Operations

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Overview. The Company had a net loss of \$564,000 for the third quarter of 2006, compared with net income of \$1.7 million for the third quarter of 2005, a decrease of 134%. Revenues increased by 38% to \$42.5 million for the three months ended September 30, 2006, from \$30.9 million for the three months ended September 30, 2005. The Company had a loss per common share for the three months ended September 30, 2006 of \$0.07 both on a diluted and basic basis, compared to earnings per share of \$0.22 on a diluted basis and \$0.23 on a basic basis for the three months ended September 30, 2005. During the third quarter of 2006, we acquired S&D loans with an aggregate face amount of \$215.0 million and we originated \$91.7 million of non-prime loans. We increased the size of our total portfolio of net notes receivable, loans held for sale, loans held for investment and OREO at September 30, 2006 to \$1.47 billion from \$1.25 billion at the end of 2005. Correspondingly, our total debt outstanding grew to \$1.50 billion at September 30, 2006 from \$1.26 billion at December 31, 2005, and from \$1.09 billion at September 30, 2005. As a result of the increase of our total debt, and the impact of the rise in short-term interest rates since mid-2005 on our interest-sensitive borrowings, interest expense (inclusive of amortization of deferred financing costs and success fees) increased by \$11.5 million, or 59%, during the third quarter of 2006 compared with the same period in 2005. Our average cost of funds during the three months ended September 30, 2006 increased to 8.13% from 6.86% during the three months ended September 30, 2005. At September 30, 2006, the weighted average interest rate of borrowed funds was 8.10%. Collection, general and administrative expenses increased \$3.5 million, or 52%, to \$10.4 million during the three months ended September 30, 2006, from \$6.9 million for the same period in 2005. The increase in collection, general and administrative expenses reflected for the most part the growth of the Company during the past twelve months, as total assets increased 36% from September 30, 2005. The provision for loan losses increased \$629,000 to \$1.7 million in the three months ended September 30, 2006, principally due to higher than expected default rates in certain pools of loans purchased in mid-2004. Gains on loan sales increased by \$570,000 to \$1.4 million in the three months ended September 30, 2006, due to an increase in the aggregate volume of loans sold. Stockholders' equity increased 3% to \$49.0 million at September 30, 2006 from \$47.6 million at December 31, 2005. Stockholders' equity was \$49.3 million at June 30, 2006.

Revenues. Revenues increased by \$11.6 million, or 38%, to \$42.5 million during the third quarter of 2006, from \$30.9 million during the same period in 2005. Revenues include interest income, purchase discount earned, gains on sales of notes receivable, gains on sales of originated loans, gains on sales of OREO and prepayment penalties and other income.

Interest income increased by \$11.3 million or 46%, to \$35.9 million during the three months ended September 30, 2006 from \$24.6 million during the three months ended September 30, 2005. The increase in interest income reflected the significant increase in the portfolio of gross notes receivable and loans held for investment, partially offset by an increase in non-accrual loans held for investment, during the three months ended September 30, 2006 compared to the three months ended September 30, 2005.

Purchase discount earned decreased by \$486,000, or 15%, to \$2.7 million during the third quarter of 2006 from \$3.1 million during the third quarter of 2005. This decrease resulted primarily from the increase in the average purchase price of portfolios relative to unpaid principal at acquisition of portfolios purchased during the second half of 2005 and the first nine months of 2006, which resulted in less purchase discount available for accretion of discount compared with portfolios purchased in prior years, coupled with a lower balance of purchase discount available for accretion from pre-2005 acquisitions. We received \$66.5 million of principal payments from notes receivable during the three months ended September 30, 2006 compared with \$70.8 million of principal payments during the same period in 2005.

Gain on sale of notes receivable decreased by \$550,000, or 85%, to \$95,000 for the three months ended September 30, 2006 from \$645,000 for the three months ended September 30, 2005. The Company sold a total of \$3.8 million in performing notes receivable during the three months ended September 30, 2006, as compared to a total of \$6.2 million of performing notes receivable during the three months ended September 30, 2005.

Gain on sale of originated loans increased by \$1.1 million, or 487%, to \$1.3 million during the three months ended September 30, 2006, from \$230,000 during the three months ended September 30, 2005. The Company sold \$51.5 million of originated loans during the three months ended September 30, 2006, compared with \$14.3 million of loans during the three months ended September 30, 2005. The average gain on loans sold increased from 1.61% during the third quarter of 2005 to 2.62% during the third quarter of 2006. In the third quarter of 2006, the Company began a program to sell a substantial portion of newly originated Liberty Loans on a whole loan, servicing-released basis.

Gain on sale of OREO decreased by \$465,000, or 87%, to \$70,000 during the three months ended September 30, 2006, from \$535,000 during the three months ended September 30, 2005. We sold 106 OREO properties with an aggregate carrying value of \$6.1 million during the third quarter of 2006, as compared to 125 OREO properties in the aggregate amount of \$8.6 million during the third quarter of 2005.

Prepayment penalties and other income (principally late charges and other servicing fees) increased by \$682,000, or 39%, to \$2.4 million during the three months ended September 30, 2006 from \$1.8 million during the corresponding period last year. This increase was primarily due to an increase in prepayment penalties received as a result of accelerated loan pay offs, principally of originated loans (Liberty Loans) during the three months ended September 30, 2006, as compared with the corresponding period in 2005. This was primarily attributable to the increased size of both our portfolio of purchased loans and loans held for investment, combined with an increase in prepayments of loans held for investment (Liberty Loans). Increased late charges resulting primarily from the growth in the size of our loan portfolios also contributed to the increase.

Operating Expenses. Operating expenses increased by \$15.6 million, or 56%, to \$43.5 million during the third quarter of 2006 from \$27.8 million during the same period in 2005. 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 increased by \$11.2 million, or 61%, to \$29.5 million during the three months ended September 30, 2006, from \$18.3 million during the three months ended September 30, 2005. This increase was the result of the increase in total debt, which was \$1.50 billion as of September 30, 2006 as compared with \$1.09 billion as of September 30, 2005, reflecting additional borrowings to fund the growth in total assets during this period. In addition, our average cost of funds during the three months ended September 30, 2006 increased to 8.13% from 6.86% during the three months ended September 30, 2005, reflecting the continued rise in short-term interest rates and its effect on our interest-rate sensitive borrowings. Included in interest expense in the third quarter of 2006 was the cost of interest rate caps purchased at the end of August 2006, which accounted for approximately \$103,000 of the increase.

Collection, general and administrative expenses increased by \$3.5 million, or 52%, to \$10.4 million during the three months ended September 30, 2006, from \$6.9 million during the corresponding period in 2005, principally reflecting the growth of the Company and the increase in total assets, particularly the volume of acquisitions and loan originations and an approximately 38% increase in the number of loans serviced. Collection, general and administrative expenses as a percentage of average assets increased from 2.50% during the three months ended September 30, 2005 to 2.75% during the three months ended September 30, 2006. Salaries and employee benefits expenses increased by \$1.6 million, or 65%, reflecting an increase in the number of employees, incentive awards, restricted stock and stock option expenses incurred during the third quarter of 2006. We ended the third quarter of 2006 with 232 employees as compared to 206 at the end of the third quarter of 2005. The cost of outside services, such as appraisals and title searches, incurred in servicing delinquent loans increased by \$350,000, or 194%, to \$530,000 during the three months ended September 30, 2006 compared to \$181,000 for the three months ended September 30, 2005 due to increases in foreclosure activity as a result of a larger total portfolio of notes receivable and certain loans purchased in various stages of delinquency and foreclosure. Legal fees, principally relating to increased activity with respect to foreclosures, increased

by \$451,000, or 43%, to \$1.5 million from \$1.0 million during the same period last year. Professional fees increased by \$345,000, or 72%, to \$821,000 from \$476,000 due to increased audit, tax, consulting and recruitment fees. All other general and administrative expenses, including loan portfolio acquisition costs, increased by \$798,000, or 29%, to \$3.5 million from \$2.7 million during the three months ended September 30, 2005 due to an increase in portfolios purchased and considered for purchase compared to the same period last year.

The provision for loan losses increased by \$629,000, or 58%, to \$1.7 million during the three months ended September 30, 2006, from \$1.1 million during the three months ended September 30, 2005. This increase was primarily due to higher than expected default rates experienced in certain pools of loans purchased in mid-2004.

Amortization of deferred financing costs increased by \$318,000 or 26%, to \$1.6 million during the third quarter of 2006 from \$1.2 million during the third quarter of 2005. This increase resulted primarily from the growth in debt to fund the expansion of the portfolio of loans acquired and originated, and principally the increased pace of Liberty Loan portfolio prepayments during the third quarter of 2006 that caused a corresponding increase in the pay down of senior debt.

Depreciation expenses decreased by \$79,000, or 22%, to \$287,000 in the third quarter of 2006. During the same period last year, the Company wrote off certain leasehold improvements related to our prior corporate office location that we vacated.

Our pre-tax income decreased by \$4.0 million, or 133%, to a loss of \$995,000 during the three months ended September 30, 2006, from income of \$3.0 million during the three months ended September 30, 2005 for the reasons set forth above.

During the three months ended September 30, 2006, the Company had a tax benefit of \$431,000 as compared to a tax provision of \$1.4 million during the three months ended September 30, 2005. Due to the loss incurred during the third quarter of 2006, there was no tax provision compared with a 45% effective tax rate for the three months ended September 30, 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Overview. The Company had a net loss of \$167,000 for the first nine months of 2006, compared with net income of \$6.4 million for the first nine months of 2005, a decrease of 103%. Revenues increased by 38% to \$121.6 million for the nine months ended September 30, 2006, from \$88.1 million for the nine months ended September 30, 2005. Loss per common share for the nine months ended September 30, 2006 was \$0.02 both on a diluted and a basic basis, compared to earnings per common share of \$0.91 and \$1.01 for the nine months ended September 30, 2005, respectively. During the first nine months of 2006, we acquired S&D loans with an aggregate face amount of \$452.3 million and we originated \$296.1 million of non-prime loans. We increased the size of our total portfolio of net notes receivable, loans held for sale, loans held for investment and OREO at September 30, 2006 to \$1.47 billion from \$1.25 billion at the end of 2005, and from \$1.06 billion at September 30, 2005. Correspondingly, our total debt outstanding grew to \$1.50 billion at September 30, 2006 from \$1.26 billion at December 31, 2005, and from \$1.09 billion at September 30, 2005. As a result of the increase of our total debt, and the impact of approximately a 400 basis point rise in short-term interest rates since mid-2004 on our interest-sensitive borrowings, interest expense (inclusive of amortization of deferred financing costs and success fees) increased \$34.8 million, or 69%, to \$85.5 million, during the first nine months of 2006, compared with the same period in 2005. Our average cost of funds during the nine months ended September 30, 2006 increased to 7.85% from 6.39% during the nine months ended September 30, 2005. At September 30, 2006, the weighted average interest rate of borrowed funds was 8.10%. Collection, general and administrative expenses increased \$7.3 million, or 34%, to \$28.8 million, during the nine months ended September 30, 2006 from \$21.5 million for the same period in 2005. The increase in collection, general and administrative expenses reflected for the most part the growth of the Company during the past twelve months as total assets increased 36% from September 30, 2005. The provision for loan losses increased \$3.4 million to \$6.7 million in the nine months ended September 30, 2006, principally due to higher default rates experienced in certain pools of loans purchased in mid-2004. Stockholders' equity increased 3% to \$49.0 million at September 30, 2006 from \$47.6 million at December 31, 2005.

Revenues. Revenues increased by \$33.5 million, or 38%, to \$121.6 million during the first nine months of 2006, from \$88.1 million during the same period in 2005. Revenues include interest income, purchase discount earned, gains on sales of notes receivable, gains on sales of originated loans, gains on sales of OREO and prepayment penalties and other income.

Interest income increased by \$33.2 million or 46%, to \$104.6 million during the nine months ended September 30, 2006 from \$71.4 million during the nine months ended September 30, 2005. The increase in interest income reflected the significant increase in the portfolio of gross notes receivable and loans held for investment, partially offset by an increase in loans held for investment that were on non-accrual, during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

Purchase discount earned decreased by \$1.4 million, or 17%, to \$6.9 million during the first nine months of 2006 from \$8.3 million during the first nine months of 2005. This decrease resulted primarily from the increase in the purchase price of portfolios relative to unpaid principal at acquisition of portfolios purchased during 2005 and 2006, particularly in the second half of 2005, which resulted in less purchase discount available for accretion of discount compared with portfolios purchased in prior years, coupled with a lower balance of purchase discount available for accretion from pre-2005 acquisitions. We received \$207.5 million of principal payments from notes receivable during the nine months ended September 30, 2006 compared with \$202.8 million of principal payments during the same period in 2005.

Gain on sale of notes receivable decreased by \$1.1 million, or 87%, to \$164,000 for the nine months ended September 30, 2006 from \$1.3 million for the nine months ended September 30, 2005. The Company sold \$3.8 million in performing notes receivable and \$161,000 of non-performing notes receivable during the nine months ended September 30, 2006, as compared to a total of \$13.6 million of performing notes receivable and credit card receivables with a face amount of \$23.5 million during the nine months ended September 30, 2005.

Gain on sale of originated loans increased by \$550,000, or 48%, to \$1.7 million during the nine months ended September 30, 2006, from \$1.1 million during the nine months ended September 30, 2005. The Company sold \$85.3 million of originated loans during the nine months ended September 30, 2006, of which \$7.5 million were loans that were originated specifically for sale to investors, but, for various reasons, did not meet investor requirements and therefore were sold at a loss, compared with \$50.9 million of loans sold during the nine months ended September 30, 2005. The average gain on loans sold decreased from 2.23% during the first nine months of 2005 to 1.98% during the first nine months of 2006 due to the sale of \$7.5 million of loans at a loss. Excluding the \$7.5 million of loans sold referred to above, the average gain on loans sold was 2.27% for the first nine months of 2006.

Gain on sale of OREO increased by \$121,000, or 10%, to \$1.3 million during the nine months ended September 30, 2006, from \$1.2 million during the nine months ended September 30, 2005. We sold 391 OREO properties with an aggregate carrying value of \$21.9 million during the first nine months of 2006, as compared to 378 OREO properties in the aggregate amount of \$24.5 million during the first nine months of 2005. The increase in the number of properties sold reflected the growth in our OREO inventory due to both an increase in foreclosures as our notes receivable portfolio grew and the purchase of loans during the past two years that were already in the foreclosure process.

Prepayment penalties and other income (principally late charges and other servicing fees) increased by \$2.2 million, or 45%, to \$7.0 million during the nine months ended September 30, 2006 from \$4.8 million during the corresponding period last year. This increase was primarily due to an increase in prepayment penalties received, as a result of accelerated loan pay offs, principally from originated loans (Liberty Loans), during the nine months ended September 30, 2006, as compared with the corresponding period in 2005. This also was attributable to the increased size of both our portfolio of purchased loans and loans held for investment, combined with continued relatively low mortgage interest rates. Increased late charges resulting primarily from the growth in the size of our loan portfolios also contributed to the increase.

Operating Expenses. Operating expenses increased by \$45.6 million, or 60%, to \$121.9 million during the first nine months of 2006 from \$76.3 million during the same period in 2005. 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 increased by \$34.1 million, or 71%, to \$81.9 million during the nine months ended September 30, 2006, from \$47.8 million during the nine months ended September 30, 2005. This increase was the result of the increase in total debt, which was \$1.50 billion as of September 30, 2006 as compared with \$1.09 billion as of September 30, 2005, reflecting additional borrowings to fund the growth in total assets during this period. In addition, our average cost of funds during the nine months ended September 30, 2006 increased to 7.85% from 6.39% during the nine months ended September 30, 2005, reflecting the continued rise in short-term interest rates and its effect on our interest-rate sensitive borrowings.

Collection, general and administrative expenses increased by \$7.3 million, or 34%, to \$28.8 million during the nine months ended September 30, 2006, from \$21.5 million during the corresponding period in 2005. Collection, general and administrative expenses as a percentage of average assets decreased from 2.81% during the nine months ended September 30, 2005 to 2.66% during the nine months ended September 30, 2006, while the Company's total assets increased by 36% since September 30, 2005. Salaries and employee benefits expenses increased by \$4.7 million, or 62%, reflecting an increase in the number of employees and stock option and restricted stock expenses for certain senior managers recognized in the first nine months of 2006. We ended the first nine months of 2006 with 232 employees as compared to 206 at the end of the first nine months of 2005. During the nine months ended September 30, 2006, the cost of stock option and restricted stock and related expenses for certain senior executives totaled \$1.4 million, compared with \$378,000 for the nine months ended September 30, 2005. Legal fees, principally relating to increased activity with respect to foreclosures, increased by \$940,000, or 31%, to \$4.0 million from \$3.0 million during the same period last year. The cost of outside services, such as appraisals and title searches, incurred in servicing delinquent loans increased by \$719,000, or 163%, to \$1.2 million from \$440,000 during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 due to increases in foreclosure activity as a result of a larger total portfolio of notes receivable and certain loans purchased in various stages of delinquency and foreclosure. Professional fees increased by \$560,000, or 32%, from \$1.7 million during the first nine months of 2005 due to increased audit, tax, consulting and recruiting fees. Other general and administrative expenses, including loan portfolio acquisition costs, increased by \$436,000, or 5%, to \$9.2 million from \$8.7 million during the nine months ended September 30, 2005 principally due to the direct costs associated with portfolios purchased and portfolios considered for purchase compared to the same period last year.

The provision for loan losses increased by \$3.4 million, or 102%, to \$6.7 million during the nine months ended September 30, 2006, from \$3.3 million during the nine months ended September 30, 2005. This increase was primarily due to a larger portfolio of notes receivable and higher than expected default rates experienced in certain pools of loans purchased in mid-2004.

Amortization of deferred financing costs increased by \$650,000, or 22%, to \$3.6 million during the first nine months of 2006 from \$2.9 million during the first nine months of 2005. This increase resulted primarily from the growth in debt to fund the expansion of the portfolio of loans acquired and originated, and the increased pace of Liberty Loan portfolio prepayments during the first nine months of 2006 that caused a corresponding increase in the pay down of senior debt.

Depreciation expenses increased by \$70,000, or 9%, to \$850,000 in the first nine months of 2006, principally due to leasehold improvements related to the Company's new office facility in New Jersey and the addition and upgrading of computer hardware and software during 2005 and the nine months ended September 30, 2006.

Our pre-tax income decreased by \$12.1 million, or 102%, to a loss of \$292,000 during the nine months ended September 30, 2006 from \$11.8 million during the nine months ended September 30, 2005 for the reasons set forth above.

During the nine months ended September 30, 2006, the Company had a tax benefit of \$126,000 due to the loss incurred as compared to a tax provision of \$5.4 million during the nine months ended September 30, 2005. The effective tax rate for the nine months ended September 30, 2005 was 46%.

Liquidity and Capital Resources

General

During the three months ended September 30, 2006, we purchased 3,650 loans, consisting primarily of first and second mortgages, with an aggregate face value of \$215.0 million at an aggregate purchase price of \$201.3 million, or 94% of face value. During the nine months ended September 30, 2006, we purchased 14,058 loans with an aggregate face value of \$452.3 million at an aggregate purchase price of \$417.3 million, or 92% of face value. All acquisitions acquired were funded through borrowings under our master credit facility.

During the three and nine months ended September 30, 2006, we originated \$91.7 million and \$296.1 million of loans, respectively, through our origination subsidiary, Tribeca. Originations are initially funded through borrowings under our warehouse facility, and loans originated for portfolio are subsequently funded with term debt after transfer to portfolio. In the first quarter of 2006, Tribeca and certain of its subsidiaries entered into master credit and security agreements with each of our principal lender and BOS (USA) Inc., an affiliate of Bank of Scotland, the proceeds of which were used to refinance and consolidate certain term loans with our principal lender.

We have one principal source of external funding to meet our liquidity requirements, in addition to the cash flow provided from borrower payments of interest and principal on mortgage loans. See

“- Borrowings.” In addition, we have the ability to sell loans in the secondary market. We sell pools of acquired mortgage loans from time to time and we sell loans that we originate specifically for sale into the secondary market on a regular basis. In addition to our regular sales of loans into the secondary market, in the third quarter of 2006, we sold \$40.4 million of newly originated Liberty Loans to various investors for cash on a whole loan basis.

As a result of the growth of the loan portfolios and our balance sheet, management has begun to explore potential additional sources of funding for financing portfolio acquisitions and loan originations. We have been evaluating the feasibility of securitizing certain acquired and originated loans in order to seek a lower cost funding alternative and possibly to reduce somewhat the short-term interest sensitivity of our borrowings. In addition, we have begun to seek additional term debt funding alternatives with banks and other financial institutions in order to expand our borrowing capabilities.

Short-term Investments. The Company's short-term investment portfolio includes U.S. treasury bills and investment-grade commercial paper. The Company's investment policy is structured to provide an adequate level of liquidity in order to meet normal working capital needs and expansion of the loan portfolio. At September 30, 2006, the Company had short-term investments of \$16.8 million, consisting principally of investment-grade commercial paper and U.S. treasury bills.

Cost of Funds. As of September 30, 2006, we had total borrowings of \$1.50 billion, of which \$1.43 billion was under our term loan facilities and an aggregate of \$63.5 million was under our warehouse facilities. Substantially all of the debt under our term loan facilities was incurred in connection with the purchase and origination of, and is secured by, our acquired notes, originated loans held for investment and OREO portfolios. At September 30, 2006, approximately \$6.6 million of our term debt accrues interest at a rate of prime plus a margin of 0.50% to 1.75%, \$927.0 million accrues interest at the FHLB 30-day LIBOR advance rate plus 2.5%, \$496.9 million accrues interest at the FHLB 30-day LIBOR advance rate plus 3.0%, \$377,000 accrues interest at the FHLB 30-day LIBOR advance rate plus 3.375% and \$870,000 accrues interest at the FHLB 30-day LIBOR advance rate plus 3.875%. Our warehouse facilities are utilized to fund Tribeca's originations of loans and the acquisition of loans through our "Flow Acquisitions Group" pending sale to others or pending funding under our term debt facilities for loans to be held in portfolio. The interest rate on the warehouse debt was 7.75% at September 30, 2006, compared with a rate of 6.75% at December 31, 2005. At September 30, 2006, the weighted average interest rate on senior debt under our master credit facilities was 8.11%. The weighted average interest rate on senior debt at December 31, 2005 and September 30, 2005 was 7.28% and 6.98%, respectively.

Cash Flow from Operating, Investing and Financing Activities

Liquidity represents our ability to obtain cost effective funding to meet our financial obligations. Our liquidity position is affected by mortgage loan purchase and origination volume, mortgage loan payments, including prepayments, loan maturities and the amortization and maturity structure of borrowings under our term loan facilities.

At September 30, 2006, we had cash and cash equivalents of \$5.1 million compared with \$3.9 million at December 31, 2005. Restricted cash of \$26.3 million and \$17.0 million at September 30, 2006 and December 31, 2005, respectively, was restricted under our credit agreements and lockbox facility with our primary lead lending bank, Sky Bank. Restricted cash increased \$9.3 million from December 31, 2005 due principally to an increase in cash collected in September, which was held in anticipation of a corresponding paydown of debt required on the fifth of the next month.

Substantially all of our assets are 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 are borrowings under our debt facilities, collections of interest and principal on notes receivable and loans held for investment and proceeds from sales of notes and OREO properties. Primary uses of cash include purchases of notes receivable, origination of loans and for operating expenses. We rely significantly upon our lender and the other banks that participate 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. While we have historically been able to finance these purchases and originations, we have not had committed loan facilities in significant excess of the amount we currently have outstanding under our credit facilities.

Net cash provided by operating activities was \$1.9 million as of September 30, 2006, compared with cash provided of \$9.4 million during the nine months ended September 30, 2005. The decrease in cash provided by operating activities during the nine months ended September 30, 2006 was due primarily to a decline in the Company's net income of \$6.6 million, from net income of \$6.4 million for the nine months ended September 30, 2005 to a net loss of \$167,000 for the nine months ended September 30, 2006.

Net cash used in investing activities was \$228.5 million in the nine months ended September 30, 2006, compared to \$259.6 million of cash used in the nine months ended September 30, 2005. The decrease in cash used during the nine months ended September 30, 2006 was primarily due to increases in principal collections of notes receivable and loans held for investment of \$123.8 million and an increase in the proceeds from sale of loans held for investment of \$52.4 million, which was partially offset by an increase in both the purchase of notes receivable of \$126.2 million and the origination of loans held for investment of \$19.5 million.

Net cash provided by financing activities decreased to approximately \$227.8 million during the nine months ended September 30, 2006, from \$252.8 million provided by financing activities during the nine months ended September 30, 2005. The decrease resulted primarily from increased repayments of outstanding notes payable and financing agreements of \$154.0 million (the result of increased prepayments of both notes receivable and loans held for investment), which was partially offset by increases in the proceeds of notes payable and financing agreements of \$140.4 million.

Borrowings

As of September 30, 2006, the Company owed an aggregate of \$1.50 billion under several credit facilities with our lender. These borrowings are shown in the Company's financial statements as "Notes payable" (referred to as "term loans" herein) and "Financing agreements" (referred to as the "warehouse facility" or "warehouse facilities" herein).

Senior Debt Facility

General. On October 13, 2004, the Company, and its finance subsidiaries, entered into a Master Credit and Security Agreement with Sky Bank, an Ohio banking corporation, which we refer to as our lender. Under this master credit facility, we request loans to finance the purchase of residential mortgage loans or refinance existing outstanding loans. The facility does not include a commitment to additional lendings, which are therefore subject to our lender's discretion as well as any regulatory limitations to which our lender is subject. The facility expires on October 13, 2006. This facility was extended to January 31, 2007.

Interest Rates and Fees. Interest on the loans is payable monthly at a floating rate equal to the highest Federal Home Loan Bank of Cincinnati 30-day advance rate as published daily by Bloomberg under the symbol FHL5LBRI, or “the 30-day advance rate,” plus the applicable margin as follows:

	For Loans Funded	
	Prior to July 1, 2005	On or After July 1, 2005
If the 30-day advance rate is	the applicable margin is	the applicable margin is
Less than 2.26%	350 basis points	300 basis points
2.26 to 4.50%	325 basis points	275 basis points
Greater than 4.50%	300 basis points	250 basis points

Upon each closing of a subsidiary loan after June 23, 2006, we are required to pay an origination fee equal to 0.50% of the amount of the subsidiary loan unless otherwise agreed to by our lender and our finance subsidiary. For loans funded between July 1, 2005 and June 23, 2006, the origination fee paid was 0.75% of the amount of the subsidiary loan, and for loans funded prior to July 1, 2005, the origination fee paid was 1% of the amount of the subsidiary loan unless otherwise agreed to by our lender and the subsidiary. Upon repayment of subsidiary loans, our lender is generally entitled to receive a fee (referred to as a success fee) equal to the lesser of (i) 0.50% or with respect to certain subsidiaries whose loans were originated before 1996, 1% of the original principal balance of the subsidiary loan or (ii) 50% of the remaining cash flows of the pledged mortgage loans related to such subsidiary loan as and when received by the relevant subsidiary after the repayment of the subsidiary loan. In connection with certain subsidiary loans, we and our lender have agreed to specified minimum fees and fee waivers.

Effective June 26, 2006, the success fee has been eliminated for all new subsidiary loans.

Principal; Prepayments; Termination of Commitments. The unpaid principal balance of each loan is amortized over a period of twenty years, but matures three years after the date the loan was made. Historically, our lender has agreed to extend the maturities of such loans for additional three-year terms upon their maturity. We are required to make monthly payments of the principal on each of our outstanding loans.

In the event there is a material and adverse breach of the representations and warranties with respect to a pledged mortgage loan that is not cured within 30 days after notice by our lender, we will be required to repay the loan with respect to such pledged mortgage loan in an amount equal to the price at which such mortgage loan could readily be sold (as determined by our lender).

Covenants; Events of Default. The master credit facility contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, a covenant that we and our subsidiaries together maintain a minimum net worth of at least \$10 million. The facility contains events of default customary for facilities of this type (with customary grace and cure periods, as applicable). We believe that we are in compliance with such covenants as of September 30, 2006.

Security. Our obligations under the master credit facility are secured by a first priority lien on loans acquired by us that are financed by proceeds of loans made to us under the facility. In addition, pursuant to a lockbox arrangement, our lender is entitled to receive all sums payable to us in respect of any of the collateral.

Warehouse Facilities

Tribeca Warehouse. On October 18, 2005, our Tribeca subsidiary entered into a warehousing credit and security agreement with our lender, which replaced the facility as amended on April 7, 2004. The agreement provides for an increased commitment to \$60 million effective October 18, 2005. In April 2006, our lender extended the maturity date of the warehousing credit and security agreement to April 30, 2007.

Interest on advances is payable monthly at a rate per annum equal to the greater of (i) a floating rate equal to the Wall Street Journal Prime Rate minus 50 basis points or (ii) 5%.

The warehouse facility is secured by a lien on all of the mortgage loans delivered to our lender or in respect of which an advance has been made as well as by all mortgage insurance and commitments issued by insurers to insure or guarantee pledged mortgage loans. Tribeca also assigns all of its rights under third-party purchase commitments covering pledged mortgages and the proceeds of such commitments and its rights with respect to investors in the pledged mortgages to the extent such rights are related to pledged mortgages. In addition, we have provided a guaranty of Tribeca's obligations under the warehouse facility, which is secured by substantially all of Tribeca's personal property. As of September 30, 2006, Tribeca had approximately \$17.2 million available under this facility.

Flow Warehouse. On August 11, 2006, we entered into a new \$40 million Flow Warehousing Credit and Security Agreement with our lenders to accumulate loans acquired by the Company's Flow Acquisitions Group prior to consolidating such loans into term debt.

Interest on advances is payable monthly at a rate per annum equal to a floating rate equal to the Wall Street Journal Prime Rate minus 50 basis points.

The warehouse facility is secured by a lien on all of the mortgage loans delivered to our lender or in respect of which an advance has been made as well as by all mortgage insurance and commitments issued by insurers to insure or guarantee pledged mortgage loans. The Company also assigns all of its rights under third-party purchase commitments covering pledged mortgages and the proceeds of such commitments and its rights with respect to investors in the pledged mortgages to the extent such rights are related to pledged mortgages. In addition, we have provided a guaranty of the Company's obligations under the warehouse facility, which is secured by substantially all our personal property. As of September 30, 2006, we had approximately \$22.5 million available under this facility.

Tribeca Term Loans

As of September 30, 2006, Tribeca, through its subsidiaries, had an aggregate of \$373.2 million in outstanding term loans, which refinanced outstanding advances under the Tribeca warehouse facility. Each of the term loans is made pursuant and subject to the term loan and security between Tribeca and our lender and a term note. Interest on the loans is payable monthly at a floating rate equal to the highest Federal Home Loan Bank of Cincinnati 30-day advance rate published by Bloomberg under the symbol FHL5LBRI. The interest rate on Tribeca's term loans is based on the same rate and margin matrix as loans made under the Master Credit Facility. In addition, upon the closing of each term loan, the applicable subsidiary-borrower pays an origination fee of approximately 0.50% of the amount of the loan, and pays certain other fees (referred to as success fees) at the termination of the applicable term loan. The unpaid balance of each term loan is amortized over a period of 20 years, but matures three years after the loan was made. Each term loan is subject to mandatory payment under certain circumstances. Each subsidiary-borrower is required to make monthly payments of the principal of its outstanding loan. Each term loan is secured by a lien on certain promissory notes and hypothecation agreements, as well as all monies, securities and other property held by, received by or in transit to our lender. The term loan agreements contain affirmative and negative covenants and events of default customary for financings of this type. We believe that we are in compliance with such covenants as of September 30, 2006.

On February 28, 2006, Tribeca and certain of its subsidiaries entered into a Master Credit and Security Agreement (the "Sky Loan") with its lender Sky Bank, pursuant to which certain Tribeca subsidiaries may borrow funds to finance their acquisition of loans Tribeca previously financed under its warehouse line of credit with Sky and consolidate and refinance prior term loans made by Sky to such subsidiaries. The facility does not include a commitment for a specified number of lendings, which are therefore subject to Sky's discretion, as well as any regulatory limitations to which Sky is subject. The facility terminates on February 28, 2008. Interest on the loans under the facility is payable monthly at a floating rate equal to the Federal Home Loan Bank of Cincinnati 30-day advance rate ("FHLBC Rate") plus an applicable margin as follows:

	For Loans Funded	
	Prior to July 1, 2005	On or After July 1, 2005
If the 30-day advance rate is	the applicable margin is	the applicable margin is
Less than 2.26%	350 basis points	300 basis points
2.26 to 4.50%	325 basis points	275 basis points
Greater than 4.50%	300 basis points	250 basis points

In addition, upon each closing of a subsidiary loan, Sky is entitled to receive an origination fee equal to 0.50% of the amount of such loan. Upon repayment of subsidiary loans, Sky is generally entitled to receive a fee (referred to as a success fee) equal to the lesser of (a) 50% of the remaining payments which are subsequently paid under the remaining pledged mortgage loans related to a satisfied subsidiary loan or (b) 0.50% of the original principal amount of the relevant subsidiary loan.

As of June 26, 2006, this success fee has been eliminated on all future fundings.

The unpaid principal balance of each loan will be amortized over a period of 20 years, but matures three years after the date the loan was made. Tribeca's subsidiaries are required to make monthly amortization payments and payments of interest on each of their outstanding loans.

The facility contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, covenants that require Tribeca and its subsidiaries, together, to maintain a minimum net worth of at least \$3,500,000 and rolling four-quarter pre-tax net income of \$750,000. The facility contains events of default customary for facilities of this type. We believe that we are in compliance with such covenants as of September 30, 2006.

Tribeca's and the subsidiary borrowers' obligations under the facility are secured by a first priority lien on loans acquired by Tribeca or such subsidiary that are financed or refinanced by proceeds of loans made to Tribeca or subsidiary borrowers under the facility. The collateral securing each loan cross-collateralizes all other loans made under the facility. In addition, pursuant to a lockbox arrangement, Sky is entitled to receive substantially all sums payable to Tribeca and any subsidiary borrower in respect of any of the collateral.

On February 28, 2006, upon execution and delivery of the Sky Loan, various outstanding term loan and security agreements between certain of Tribeca's subsidiaries and Sky with respect to approximately \$379,000,000 in indebtedness terminated and the loans outstanding thereunder are now under the Sky Loan.

On March 24, 2006, Tribeca and one of Tribeca's subsidiaries (the "Tribeca Subsidiary Borrower") entered into a \$100,000,000 Master Credit and Security Agreement (the "BOS Loan") with BOS (USA) Inc., an affiliate of Bank of Scotland. On March 26, 2006, \$98.2 million of proceeds of the BOS Loan were used to consolidate and refinance prior term loans made to certain Tribeca subsidiaries.

The outstanding balance of the BOS Loan was \$80.1 million at September 30, 2006. Interest on the BOS Loan is payable monthly at a floating rate equal to the FHLBC Rate plus an applicable margin as follows:

If the 30-day advance rate is	the applicable margin is
Less than 2.26%	300 basis points
2.26 to 4.50%	275 basis points
Greater than 4.50%	250 basis points

Upon repayment of the BOS Loan, BOS is entitled to receive a fee equal to the lesser of (a) 50% of the remaining payments which are subsequently paid under the remaining pledged mortgage loans related to the BOS Loan or (b) 0.50% of the original principal amount of the BOS Loan.

The unpaid principal balance of the BOS Loan will be amortized over a period of 20 years, but matures on March 24, 2009. The Tribeca Subsidiary Borrower is required to make monthly amortization payments and payments of interest on the BOS Loan.

The facility contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, covenants that require Tribeca and its subsidiaries, together, to maintain a minimum net worth of at least \$3,500,000 and rolling four-quarter pre-tax net income of \$750,000. The facility contains events of default customary for facilities of this type.

Tribeca's and the Tribeca Subsidiary Borrower's obligations under the facility are secured by (i) a first priority lien on loans acquired by the Tribeca Subsidiary Borrower that are refinanced by the proceeds of the BOS Loan and (ii) a second priority lien on collateral securing loans made to Tribeca or its subsidiaries under the Sky Loan described above. In addition, pursuant to a lockbox arrangement, BOS is entitled to receive substantially all sums payable to Tribeca and the Tribeca Subsidiary Borrower in respect of any of the primary collateral under the facility. Tribeca's BOS Loan and the Sky Loan are cross-collateralized.

August 2, 2006 Modifications to Sky Bank Financing Arrangements

On August 2, 2006, the Company received a letter from its lead lending bank (the "August Modification Letter") modifying the Master Credit Facilities. Pursuant to the August Modification Letter, the interest rate to be charged by Sky Bank for all debt originated under the Master Credit Facilities before July 1, 2005 shall be lowered initially by at least 25 basis points no later than October 1, 2006 and then by an additional 25 basis points no later than January 1, 2007. These rate reductions will occur according to the following schedule based on actions taken by the Federal Reserve, but will not in any event exceed a total of 50 basis points.

Federal Reserve Action	Change to Interest Rate Margin Charged by Sky Bank
If the Federal Reserve raises the federal funds rate by 25 basis points at its meeting on or about August 8, 2006	Rate reduction of 25 basis points effective September 1, 2006
If the Federal Reserve raises the federal funds rate by 50 basis points at its meeting on or about August 8, 2006	Rate reduction of 50 basis points effective September 1, 2006
If the Federal Reserve keeps the federal funds rate at its current standard or decreases such rate at its meeting on or about August 8, 2006	Rate reduction of 25 basis points effective October 1, 2006
If the Federal Reserve raises the federal funds rate by 25 basis points or more at its meeting on or about September 20, 2006	Rate reduction of 25 basis points effective October 1, 2006
If the Federal Reserve keeps the federal funds rate at its current standard or decreases such rate at its meeting on or about September 20, 2006	Rate reduction of 25 basis points effective January 1, 2007

The total amount of debt subject to the August Modification Letter, including participants debt, was approximately \$496.9 million at September 30, 2006, all of which benefited from a 25 basis point reduction on October 1, 2006. The effective date of the additional 25 basis point reduction on approximately \$51.3 million of the participant's pre-July 1, 2005 debt is currently being negotiated.

Interest Rate Caps

On August 29, 2006, the Company purchased a \$300 million (notional amount) one-month LIBOR cap with a strike price of 5.75% at a price of \$101,000, and on August 30, 2006, the Company purchased a \$500 million (notional amount) one-month LIBOR cap with a strike price of 6.0% at a price of \$60,000. Both cap agreements are non-amortizing and will be in effect for one year, and the cap resets match the interest rate resets on a portion of the Company's term debt. These caps will limit the Company's exposure to increased borrowing costs on \$300 million of term debt should the 30-day LIBOR rate exceed 5.75%, and on a total of \$800 million of term debt should such rate exceed 6.0%. The interest rate caps are not designated as hedging instruments for accounting purposes; therefore, a change in the fair market value will be recognized as gain or loss in earnings in the current period.

The following table presents the contract/notional and fair value amounts of all derivative transactions at September 30, 2006:

Interest Rate Caps	Notional Amount	Expiration Date	Premium Paid	Fair Value
Cap 1	\$300,000,000	August 31, 2007	\$101,000	\$44,051
Cap 2	500,000,000	August 31, 2007	60,000	13,576
Total	<u>\$800,000,000</u>		<u>\$161,000</u>	<u>\$57,627</u>

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 the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows.

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, variances in the yield curve and changing prepayment rates on notes receivable, loans held for investment and loans held for sale.

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 will 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 mortgage notes receivable, generate fixed returns and have remaining contractual maturities in excess of five years, while the majority of originated loans held for investment generate fixed returns for the first two years and six-month adjustable returns thereafter. We fund the origination and acquisition of these assets with borrowings, which have interest rates that are based on the monthly Federal Home Loan Bank of Cincinnati ("FHLB") 30-day advance rate. 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 FHLB Bank of Cincinnati 30-day advance rate or, to a lesser extent, the prime rate. Based on approximately \$1.50 billion of borrowings under term loan and warehouse facilities outstanding at September 30, 2006, a 1% instantaneous and sustained increase in both FHLB and prime rates could increase quarterly interest expense by as much as approximately \$3.7 million, pre-tax, which would negatively impact our quarterly after-tax net income. Due to our liability-sensitive balance sheet, increases in these rates will decrease both net income and the market value of our net assets. During the period September 30, 2006 to August 30, 2007, the offsetting benefit of the Company's interest rate caps could reduce the quarterly impact of a 1% instantaneous and sustained increase in both FHLB and prime rates by approximately \$840,000, pre-tax. See Interest Rate Caps - "Liquidity and Capital Resources."

The value of our assets may be affected by prepayment rates on investments. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty. When we originate and purchase mortgage loans, we expect that such mortgage loans will have a measure of protection from prepayment in the form of prepayment lockout periods or prepayment penalties. In periods of declining mortgage interest rates, prepayments on mortgages generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the investments that were prepaid. In addition, the market value of mortgage investments may, because of the risk of prepayment, benefit less from declining interest rates than other fixed-income securities. Conversely, in periods of rising interest rates, prepayments on mortgages generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions, which may be adversely affected by industry slowdowns and other factors; local real estate conditions (such as the supply of housing or the rapid increase in home values). Decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our mortgage loans, which could cause us to suffer losses on the ultimate disposition of foreclosed properties.

We purchase and originate principally fixed and adjustable rate residential mortgage loans, which are secured primarily by the underlying single-family properties. Because the vast majority of our loans are to non-prime borrowers, delinquencies and foreclosures are substantially higher than those of prime mortgage loans, and if not serviced actively and effectively could result in an increase in losses on dispositions of properties acquired through foreclosure. In addition, a decline in real estate values would reduce the value of the residential properties securing our loans, which could lead to an increase in borrower defaults, reductions in interest income and increased losses on the disposition of foreclosed properties.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows.

ITEM 4. 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation and as a result of the material weaknesses identified in the Company's Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2006, the Company's disclosure controls and procedures are not effective for gathering, analyzing and disclosing the information that the Company is required to disclose in reports filed under the Securities Act of 1934.

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 September 30, 2006 that have materially affected, or are reasonably likely to have a material effect on internal control over financial reporting.

The Company identified material weaknesses as defined by the Public Company Accounting Oversight Board (United States) with respect to the accounting and reporting matters discussed in Note 2 of the Consolidated Financial Statements included in the 2005 Annual Report filed on Form 10-K. Under the direction of the Company's Chief Financial Officer, the Company is continuing to review its related systems of internal controls over financial reporting and is remediating its material weaknesses that have been previously disclosed in Item 9A of the 2005 Annual Report filed on Form 10-K. Management continues to assess its controls over accounting policy and financial reporting matters, and has made considerable progress in implementing appropriate improvements.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in routine litigation matters incidental to our business related to the enforcement of our rights under mortgage loans we hold, none of which is individually material. In addition, because we originate and service mortgage loans throughout the country, we must comply with various state and federal lending laws 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 material.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005. The risk factors discussed in detail in the Company's Form 10-K include the following:

Risks Related to Our Business

- If we are not able to identify and acquire portfolios of "scratch and dent" residential mortgage loans on terms acceptable to us, our revenues and profitability could be materially reduced.
- We may not be able to successfully market our residential mortgage loan origination products to non-prime borrowers.
- Our business is dependent on external financing, and we currently receive the substantial majority of our financing from a single lender. If our principal lender ceases to provide financing to us or increases the cost to us of such financing and we are unable to access alternative external sources of financing on favorable terms or at all, we would not be able to fund and grow our operations and our business will be materially harmed.
- Our ability to fund increased operating expenses depends on the agreement of our principal lender to increases in our operating allowance.
- If our principal lender ceases to renew our maturing loans for additional terms or provide us with refinancing opportunities, or we are unable to secure refinancing opportunities with other lenders, our indebtedness will become due and payable upon the contractual maturity of each borrowing.
- Our credit facilities require us to observe certain covenants, and our failure to satisfy such covenants could render us insolvent or preclude our seeking additional financing from this or other sources.
- Our business is sensitive to, and can be materially affected by, changes in interest rates.
- A prolonged economic slowdown or a lengthy or severe recession could harm our operations, particularly if it results in a decline in the real estate market.

- The residential mortgage origination business is a cyclical industry, has recently been at its highest levels ever and may decline, which could reduce the number of mortgage loans we originate and could adversely impact our business.

- Our reliance on cash-out refinancings as a significant source of our origination activities increases the risk that our earnings will be harmed if the demand for this type of refinancing declines.

- When we acquire S&D loans, the price we pay is based on a number of assumptions. A material difference between the assumptions we use in determining the value of S&D loans we acquire and our actual experience could harm our financial position.

- We may experience higher loan losses than we have reserved for in our financial statements.

- We use estimates for recognizing revenue on a majority of our portfolio investments and our earnings would be reduced if actual results are less than our estimates.

- If we do not manage our growth effectively, our financial performance could be harmed.

- The inability to attract and retain qualified employees could significantly harm our business.

- We may have to outsource a portion of the servicing of the loans we hold due to capacity constraints or lack of sufficient personnel.

- We face intense competition that could adversely impact our market share and our revenues.

- A significant amount of our mortgage loan originations are secured by property in New York and New Jersey, and our operations could be harmed by economic downturns or other adverse events in these states.

- Competition with other lenders for the business of independent mortgage brokers could negatively affect the volume and pricing of our originated loans.

- We may not be adequately protected against the risks inherent in non-prime residential mortgage loans.

- We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, vendors and our employees.

- An interruption in or breach of our information systems may result in lost business and increased expenses.

- The success and growth of our business will depend on our ability to adapt to and implement technological changes to remain competitive, and any failure to do so could result in a material adverse effect on our business.

- We are exposed to the risk of environmental liabilities with respect to properties to which we take title.

- If we were to lose our Chairman, our operations could be adversely affected.

- If we do not obtain and maintain the appropriate state licenses we will not be allowed to originate, purchase and service mortgage loans in some states, which would adversely affect our operations.

Risks Related to the Restatement of Our Financial Statements

- We may become subject to liability and incur increased expenditures as a result of our restatement of our financial statements.
- Failures in our internal controls and disclosure controls and procedures could lead to material errors in our financial statements and cause us to fail to meet our reporting obligations.

Risks Related to the Regulation of Our Industry

- New legislation and regulations directed at curbing predatory lending practices could restrict our ability to originate, purchase, price, sell, or finance non-prime residential mortgage loans, which could adversely impact our earnings.
- The broad scope of our operations exposes us to risks of noncompliance with an increasing and inconsistent body of complex laws and regulations at the federal, state and local levels.
- If financial institutions face exposure stemming from legal violations committed by the companies to which they provide financing or underwriting services, this could increase our borrowing costs and negatively affect the market for whole-loans and mortgage-backed securities.
- We may be subject to fines or other penalties based upon the conduct of our independent brokers.
- We are subject to significant legal and reputational risks and expenses under federal and state laws concerning privacy, use and security of customer information.
- If many of our borrowers become subject to the Servicemembers Civil Relief Act of 2003, our cash flows and interest income may be adversely affected.

Risks Related to Our Securities

- Thomas J. Axon effectively controls our company, substantially reducing the influence of our other stockholders.
- Our organizational documents, Delaware law and our credit facility may make it harder for us to be acquired without the consent and cooperation of our board of directors, management and lender.
- Our quarterly operating results may fluctuate and cause our stock price to decline.
- Various factors unrelated to our performance may cause the market price of our common stock to become volatile, which could harm our ability to access the capital markets in the future.
- Future sales of our common stock may depress our stock price.
- Compliance with the rules of the market in which our common stock trades and proposed and recently enacted changes in securities laws and regulations are likely to increase our costs.

Additional information on these risk factors is contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit

Number

- | | |
|--------|--|
| 3.1 | Fifth Amended and Restated Certificate of Incorporation. Incorporated by reference to Appendix A to the Registrant's Definitive Information Statement on Schedule 14C, filed with the Securities and Exchange Commission (the "Commission") on January 20, 2005. |
| 3.2 | Amended and Restated By-laws. Incorporated by reference to Appendix B to the Registrant's Definitive Information Statement on Schedule 14C, filed with the Commission on January 20, 2005. |
| 10.30* | Employment Agreement dated as of February 1, 2006 between Franklin Credit Management Corporation and William Sullivan. |
| 10.31* | Flow Warehousing Credit and Security Agreement dated August 10, 2006 between Franklin Credit Management Corporation and Sky Bank. |
| 10.32* | Rate Cap Transaction Agreement dated August 29, 2006 between LaSalle Bank National Association and Franklin Credit Management Corporation. |
| 10.33* | Interest Rate Cap Transaction Agreement dated September 11, 2006 between HBOS Treasury Services and Franklin Credit Management Corporation. |
| 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* | Certification of Chief Executive Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Chief Financial Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

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.

November 14, 2006

FRANKLIN CREDIT MANAGEMENT CORPORATION

By: /s/ ALEXANDER GORDON JARDIN

Alexander Gordon Jardin
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Signature	Title	Date
<u>/s/ ALEXANDER GORDON JARDIN</u> Alexander Gordon Jardin (Principal Executive Officer)	Chief Executive Officer and Director	<u>November 14, 2006</u>
<u>/s/ PAUL D. COLASONO</u> Paul D. Colasono (Principal Financial Officer)	Executive Vice President and Chief Financial Officer	<u>November 14, 2006</u>

EMPLOYMENT AGREEMENT
WILLIAM F. SULLIVAN

This AGREEMENT is made as of this 1st day of February, 2006, between Franklin Credit Management Corporation and William F. Sullivan (“Employee”).

RECITALS

- a. FCMC is a Corporation organized under the laws of the State of Delaware.
- b. FCMC desires to employ Employee, and Employee desires to accept employment from FCMC.
- c. The parties desire to record the arrangements made for such employment.

AGREEMENT

IT IS, THEREFORE, AGREED:

1. Definitions: For the purposes of this Agreement, the following capitalized terms shall have the following meanings:

- a. FCMC or Company shall mean Franklin Credit Management Corporation.
- b. Employee shall mean William F. Sullivan.

Competitor shall mean any person, company, firm or corporation which: (1) actually competes with the Company, its subsidiaries or affiliates; (2) is engaged in a business in which the Company, its subsidiaries or affiliates are also engaged; or (3) is engaged in a business which the Company, its subsidiaries or affiliates have at the date of Employee’s termination of employment reasonably certain plans to enter within twelve months of the Employee’s termination.

2. Employment/Term. Effective February 1, 2006, FCMC hereby employs Employee as the General Counsel of FCMC. The term of employment shall be for the period commencing February 1, 2006 and ending on the date the term of employment is terminated pursuant to Section 11 of this Agreement.

Place of Employment. During the term of employment, Employee shall be based at the Company’s principal executive offices,

- a. which shall be in the New York City metropolitan area (including the surrounding area of New Jersey), subject to reasonable travel required in the performance of Employee’s duties.

3. Duties and Authority. The responsibilities of the Employee shall include the following:
- a. Employee shall have the duties and responsibilities as the General Counsel of the Company, including but not limited to the following:
 - i. Managing the Company's compliance with all State and Federal regulations and licensing requirements;
 - ii. Management of the Company's litigation and other legal matters; and,
 - iii. Management of the legal department of the Company.
 - b. Employee shall report directly to the Chief Executive Officer of the Company.
4. Compensation. FCMC shall pay to Employee the following compensation:
- a. Salary. Employee shall receive an annual salary of \$250,000, payable on a semimonthly basis. Not less than annually, the Company shall review Employee's base compensation.
 - b. Bonuses. In addition to the salary set forth above, Employee shall receive the following bonuses:
 - i. Employee shall receive a signing bonus of Ten Thousand (\$10,000) dollars on execution of this Agreement.
 - ii. Employee shall be entitled to receive an annual bonus based on his performance and the performance of the Company. The amount of such annual bonuses shall be subject to the reasonable discretion of the Board of Directors of the Company.
 - c. Stock. As additional compensation for services provided under this agreement, Employee will receive a grant of 5,000 shares of common stock of the Company as of the date of issuance of such stock. On execution of this Agreement, the Company shall immediately direct that 5,000 shares of common stock be issued to Employee.
 - i. Employee acknowledges that the stock to be issued by the Company shall be restricted stock and limitations shall apply to Employee's ability to trade such stock.
 - d. Car Allowance. Throughout the term of employment, Employee shall receive a car allowance of \$400 per month and a paid parking space in the vicinity of the Company's offices.
-

5. Vacation and other benefits. During each twelve-month period that Employee is employed by FCMC, Employee shall be entitled to three weeks (i.e., fifteen days) of paid vacation plus regular personal days and holidays in accordance with the policies of FCMC. Vacation days can not be accrued or aggregated from one twelve-month period to the next. In addition, Employee shall be entitled to participate in all present and future benefit plans provided by FCMC to its other executive officers.

6. Moving Expenses.

a. Employee shall relocate to the New York City metropolitan area on or before April 1, 2006.

The Company shall reimburse Employee for the reasonable and actual expenses associated with Employee and his immediate family's relocation to the New York City metropolitan area including but not limited to moving, storage and packing expenses, travel expenses and other similar expenses.

c. The Company shall provide Employee with lodging in the New York City metropolitan area through the earlier of: (1) Employee's relocation to the New York City metropolitan area, or (2) April 1, 2006.

d. The Company shall reimburse Employee for weekly trips to Boston during the period prior to Employee's relocation to the New York City metropolitan area, utilizing cost-effective airfare and ground transportation.

7. Acknowledgments. FCMC is in the business of purchasing, servicing and disposing of residential mortgages and other secured financial assets, and related services in the both New York City metropolitan area and on a national basis. Employee acknowledges that:

a. FCMC's services are highly specialized;

b. FCMC has a proprietary interest in its methods and processes; and,

c. Documents and other information regarding FCMC's methods, pricing and costs are highly confidential and constitute trade secrets.

8. Trade secrets and confidential information. During the term of this Agreement, Employee may have access to, and become familiar with, various trade secrets and confidential information belonging to FCMC, its subsidiaries or affiliates. Employee acknowledges that such confidential information and trade secrets are owned and shall continue to be owned solely by FCMC, its subsidiaries or affiliates. During the term of his employment and for thirty-six (36) months after such employment terminates for any reason, regardless of whether termination is initiated by FCMC or Employee, Employee agrees not to use, communicate, reveal or otherwise make available such information for any purpose whatsoever, or to divulge such information to any person, partnership, corporation or entity other than Employer or persons expressly designated by Employer, unless Employee is compelled to disclose it by judicial process.

9. Restrictive covenants.

a. Full-time Employment. During the period of his employment, Employee shall not, directly or indirectly, alone or as a member of any partnership, or as an officer, director, shareholder, or employee of any corporation, engage in or be concerned with any other paid employment, except as otherwise authorized in writing by the Company.

b. Non-competition. Employee agrees that:

i. During both the period of Employee's employment by the Company and the period in which Employee is entitled to receive periodic severance payments pursuant to Paragraph 12(b)(ii) of this Agreement, regardless of whether the termination was initiated by FCMC or Employee, Employee will not accept employment with, or act as a consultant, contractor, advisor, or in any other capacity for, a Competitor, or enter into competition with FCMC, its subsidiaries or affiliates, either by himself or through any entity owned or managed in whole or in part by the Employee, and Employee shall not make any preparations to compete with the Company.

ii. During the term of this Agreement and for a period of nine (9) months after termination Employee's employment by the Company for any reason, regardless of whether the termination is initiated by FCMC or Employee, Employee shall not solicit or make, or cause to make, any offer of employment to any employee of the Company, its subsidiaries or affiliates, for the purpose of inducing such employee to terminate his or her employment with the Company, or its subsidiaries or affiliates.

iii. For a period of twelve (12) months after termination of Employee's employment for any reason, regardless of whether the termination is initiated by the Company or Employee, or for a period of time equal to the length of Employee's employment with FCMC if such tenure is less than twelve (12) months, Employee will not, directly or indirectly, solicit for the purchase or sale of financial assets any person, company, firm, or corporation from whom the Company purchased financial assets or to whom the Company sold assets originated by the Company during the term of Employee's employment. Employee agrees not to so solicit such customers on behalf of himself or any other person, firm, company, or corporation, if such solicitation is for the purchase or sale of the same or similar types of financial assets purchased or sold by the Company.

c. The parties have attempted to limit Employee's right to compete only to the extent necessary to protect FCMC from unfair competition. The parties recognize, however, that reasonable people may differ in making such a determination. Consequently, the parties hereby agree that, if the scope or enforceability of the restrictive covenant is in any way disputed at any time, a court or other trier of fact may modify and enforce the covenant to the extent that it believes the covenant is reasonable under the circumstances existing at that time.

- Employee further acknowledges that: (1) in the event his employment with FCMC terminates for any reason, regardless of whether
- d. the termination is initiated by FCMC or Employee, he will be able to earn a livelihood without violating the foregoing restrictions; and (2) his ability to earn a livelihood without violating such restrictions is a material condition of his employment with FCMC.

10. Remedies. Employee acknowledges that: (1) compliance with Paragraphs 8 and 9 herein is necessary to protect FCMC's business and good will; (2) a breach of those Paragraphs will irreparably and continually damage FCMC'; and (3) an award of money damages will not be adequate to remedy such harm. Consequently, Employee agrees that, in the event he breaches or threatens to breach any of these covenants, FCMC shall be entitled to both: (1) a preliminary or permanent injunction in order to prevent the continuation of such harm; and (2) money damages, insofar as they can be determined, including, without limitation, all reasonable costs and attorneys' fees incurred by the FCMC in enforcing the provisions of this Agreement if FCMC is successful in establishing Employee's breach of these covenants Nothing in this Agreement, however, shall prohibit FCMC from also pursuing any other remedy.

11. Termination.

- a. Termination by Either Party. Either party may terminate Employee's employment "without cause" by giving thirty (30) days' written notice to the other.
- b. Termination by Company. Employee's employment may be terminated by the Company "for cause" if he:
 - (1) fails or refuses to perform each and all of his material assigned duties to;
 - (2) to comply with one or more policies of the Company;
 - (3) breaches any of the material terms of this Agreement; or,
 - (4) commits any criminal, fraudulent or dishonest act related to his employment;

provided that cause shall not be deemed to exist under subsections (1) or (2) of this subparagraph unless the Employee has been given written notice describing in reasonable detail the alleged breaches and stating that such breaches are grounds for termination for good reason under this section, and the Employee fails to cure such breaches within 10 days.

- c. Termination by Employee. Employee shall have the right to terminate his employment for “good reason.” For the purposes of this Agreement, good reason shall be limited to the following:
 - i. The Company transfers the place of Employee’s employment in violation of Paragraph 2 (a) of this Agreement;
 - ii. The Company’s breaches any of the material terms of Paragraphs 3, 4, 5 or 6 of this Agreement.
- d. Termination Due to Incapacity. In the event Employee is unable to perform his material duties because of illness or disability for a continuous period of 120 days, the Company may terminate this Agreement without further notice.

12. Severance.

- a. Conditions under which Severance is Paid. In the event the Company terminates Employee’s employment without cause or for Employee’s failure to perform assigned duties, the Employee shall receive the severance pay provided in subparagraph (b) of this Paragraph. Employee shall also be entitled to the severance provided for in subparagraph (b) of this Paragraph if the Employee terminates his employment for good reason.

- b. Amount of Severance. To the extent severance is payable to Employee pursuant to subparagraph (a) of this Agreement, Employee shall be entitled to receive the severance payments provided for in subparts (i) and (ii) of this subparagraph:

- i. Lump Sum Payment. Employee shall be entitle to receive payment in a lump sum in respect of all accrued and unused vacation within ten days after termination of employment in an amount based on Employee’s current base salary. If such termination occurs after the end of any calendar year and before the payment date of the bonus in respect of that year as provided in Section 4(b), an amount equal to the bonus for such calendar year calculated as provided in Section 4(b) shall be paid to Employee on April 15 of the year of termination.

- ii. Monthly Payments. Employee shall be entitled to receive monthly payments equal to one twelfth of his then current base salary for the periods set forth below after such termination. In addition, if Employee is enrolled in and covered by a medical insurance plan offered by the Company on the date of termination of employment, Employee shall be entitled, at his election, to receive either (x) continued health benefits for the periods set forth below, or (y) an amount equal to the medical insurance premiums paid by the Company on behalf of the Employee for the periods set forth below.

- (1) In the event the termination occurs prior to February 1, 2007 - three months.
- (2) In the event the termination occurs on or after February 1, 2007 - four months.

Such payments shall be made semimonthly for the periods specified above.

- Effect of Severance Payments. The severance payments set forth in this Paragraph are payments made as liquidated damages and
- c. not as a penalty. In the event Employee's employment is terminated and Employee is not entitled to severance in accordance with subparagraph (a) of this Paragraph, Employee shall be entitled to no further compensation or payments from the Company.

13. Effect of Termination. Notwithstanding any other provision of this Agreement, in the event Employee's employment is terminated pursuant to Paragraph 11 of this Agreement or otherwise: (1) all stock options held by Employee not exercised by the effective date of such termination shall expire in accordance with the terms of the Employee Stock Option Plan maintained by the Company pursuant to which such options were issued and (2) except as provided in Paragraph 12, Employee's right to any bonuses and the Company's obligation to pay such bonuses which are not paid as of the effective date of the termination of Employee's employment shall terminate.

14. Return of the Company property. On termination of employment, the Employee shall return to the Company all keys, correspondence, contracts, reports, price lists, manuals, forms, mailing lists, customer lists, advertising materials, ledgers, supplies, equipment, checks, petty cash and all documents of any form relating to the Company's or its subsidiaries or affiliates business in his possession or control.

15. Notice. Any notice required to be given hereunder shall be in writing sent by registered mail, return receipt requested, to FCMC at Number 6 Harrison Street, Sixth Floor, Attention Thomas J. Axon, and to Employee at 66 Woodbury Street, Hamilton, Ma. 01982 or to such changed address as the parties may designate by like notice. The effective date of such notice shall be its mailing date.

16. Entire agreement. This Agreement supersedes all agreements previously made by the parties relating to its subject matter. There are no other understandings or agreements between the parties.

17. No violation or default. The Employee hereby represents and warrants that the execution of this Agreement by him will not violate the provisions of or constitute a default under any other Agreement or arrangement to which the Employee is party or otherwise bound.

18. Indemnification. The Company shall indemnify Employee under the terms and conditions of the existing agreement between the Company and its other Officers and Directors.

19. Non-Waiver. No delay or failure by either party to exercise any right under this Agreement, and no partial or single exercise under it, shall constitute a waiver of that or any other right.
20. Headings. Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.
21. Governing law. This Agreement shall be construed in accordance with and governed by the laws of the State of New Jersey.
22. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.
23. Binding effect. The provisions of this Agreement shall be binding upon and inure to the benefits of each of the parties and their respective successors and assigns.

In witness whereof, the parties hereto have signed this Agreement.

Dated February 15, 2006.

Employee

Franklin Credit Management Corporation

By: Thomas Axon
President

FLOW WAREHOUSING CREDIT AND SECURITY AGREEMENT

between

FRANKLIN CREDIT MANAGEMENT CORPORATION

Borrower

and

SKY BANK

Lender

Dated as of August 11, 2006

FLOW WAREHOUSING CREDIT AND SECURITY AGREEMENT

THIS FLOW WAREHOUSING CREDIT AND SECURITY AGREEMENT (the “*Agreement*”) is entered into as of August 10, 2006, between Franklin Credit Management Corporation, a New York corporation (the “*Company*” or the “*Borrower*”), having its principal office at 101 Hudson Street, Jersey City, NJ 07302, and Sky Bank, an Ohio banking corporation (the “*Bank*”), having an office at 110 East Main Street, Salineville, Ohio 43945.

WHEREAS, the Company has requested the Bank, and the Bank is willing, to extend a revolving warehousing line of credit to the Company to finance the purchasing of residential mortgage loans in mortgage loan portfolio pools of less than \$1,500,000, in the aggregate, at the time of purchase, and the parties desire to set forth herein the terms and conditions under which Advances under the revolving warehousing line of credit shall be made and security provided for the repayment thereof;

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Defined Terms. Capitalized terms defined below or elsewhere in this Agreement (including the Exhibits hereto) shall have the following meanings:

“*Advance*” means a disbursement by the Bank under the Commitment, including readvances of funds previously advanced to the Company and repaid to the Bank.

“*Advance Request*” has the meaning set forth in Section 2.2 hereof.

“*Affiliate*” has the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

“*Agreement*” means this FLOW Warehousing Credit and Security Agreement, either as originally executed or as it may from time to time be supplemented, modified or amended.

“*Bank*” has the meaning set forth in the first paragraph of this Agreement.

“*Business Day*” means any day excluding Saturday, Sunday and any day which is a legal holiday for banks under the laws of the State of Ohio.

“*Collateral*” has the meaning set forth in Section 3 hereof.

“*Collateral Documents*” means all Mortgage Loan Documents evidencing or securing or pertaining to any Pledged Mortgage Loan, whether now existing or hereafter arising, and being generally described on **Exhibit C** attached hereto. The term Collateral Documents shall also include any endorsements or assignments of such Mortgage Loan Documents to the Company. The Bank shall have the right, on not less than thirty (30) Business Days’ prior written notice to the Company to modify **Exhibit C** to conform to current legal requirements or Bank practices, and, as so modified, said Exhibits shall be deemed a part hereof.

“*Commitment*” has the meaning set forth in Section 2.1 hereof.

“*Company*” has the meaning set forth in the first paragraph of this Agreement.

“*Conventional Mortgage Loan*” means a Mortgage Loan other than a FHA-insured or VA-guaranteed Mortgage Loan.

“*Custodian*” means the organization, if any, which holds Mortgage Loan Documents under any custodial agreement relating to pooled Mortgage Loans on the Company and Bank’s behalf.

“*Custodial Agreement*” means any custodial agreement entered into by Bank, Company and the Custodian, if any.

“*Debt*” means, with respect to any Person, at any date (a) all indebtedness or other obligations of such Person which, in accordance with GAAP, would be included in determining total liabilities as shown on the liabilities side of a balance sheet of such Person at such date; (b) all indebtedness or other obligations of such Person for borrowed money or for the deferred purchase price of property or services; (c) all indebtedness or other obligations of any other Person for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingently or otherwise, to pay or advance money or property as guarantor, endorser, or otherwise (except as endorser of negotiable instruments for collection in the ordinary course of business), or which such Person has agreed to purchase or otherwise acquire; and (d) all indebtedness for borrowed money or for the deferred purchase price of property or services secured by a Lien on any property owned or being purchased by such Person (even though such Person has not assumed or otherwise become liable for the payment of such indebtedness).

“*Default*” means the occurrence of any event or existence of any condition which, but for the giving of notice, the lapse of time, or both, would constitute an Event of Default.

“*Event of Default*” means any of the conditions or events set forth in Section 8.1 hereof.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

“*FHA*” means The Federal Housing Administration of the United States Department of Housing and Urban Development and any successor thereto.

“*FHLMC*” means The Federal Home Loan Mortgage Corporation and any successor thereto.

“*Floating Rate*” has the meaning set forth in Section 2.4 hereof.

“*FNMA*” means The Federal National Mortgage Association and any successor thereto.

“*GAAP*” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“*GNMA*” means Government National Mortgage Association or any successor thereto.

“*HUD*” means the United States Department of Housing and Urban Development or any successor thereto.

“*Indemnified Liabilities*” has the meaning set forth in Section 9.3 hereof.

“*Index*” has the meaning set forth in Section 2.4 hereof.

“*Insurer*” means FHA, VA or a private mortgage insurer, as applicable.

“*Internal Revenue Code*” means the Internal Revenue Code of 1986, or any subsequent federal income tax law or laws, as any of the foregoing have been or may from time to time be amended.

“*Investor*” means a third party financially responsible institution purchasing Mortgage Loans from the Company pursuant to a Purchase Commitment.

“*Lien*” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest).

“*Lock-box Terms*” has the meaning set forth in Section 3.5 hereof.

“*Margin Stock*” has the meaning assigned to that term in Regulation U of the Board of Governors of the Federal Reserve System as in effect from time to time.

“*Mortgage*” means either (1) a first-lien mortgage, deed of trust, security deed or similar instrument on improved real property; or (2) a second-lien mortgage, deed of trust, security deed or similar instrument on improved real property.

“*Mortgage Loan*” means any loan evidenced by a Mortgage Note, including any modifications thereof. A Mortgage Loan, unless otherwise expressly stated herein, means a Residential Mortgage Loan.

“*Mortgage Loan Documents*” means the Mortgage, Mortgage Note, credit and closing packages, disclosures, and all other files, records and documents evidencing, securing, guaranteeing or otherwise arising in connection with or relating to any Pledged Mortgage Loan, and including, without limitation, (to the extent applicable) those documents listed on **Exhibit C**.

“*Mortgage Note*” means a note secured by a Mortgage and evidencing a Mortgage Loan.

“*Net Worth*” means, at any date of determination, (a) Consolidated total assets of the Company and its Subsidiaries at such date less (b) the sum of (i) Consolidated total liabilities of the Company and its Subsidiaries at such date and (ii) the liquidation value of any redeemable preferred stock of the Company and its Subsidiaries at such date, in each case as determined in accordance with GAAP.

“*Note*” has the meaning set forth in Section 2.3 hereof.

“*Notices*” has the meaning set forth in Section 11.3.

“*Officers’ Certificate*” means a certificate executed on behalf of the Company by its vice president, cashier or other appropriate officer.

“*Person*” means and includes natural persons, corporations, limited liability companies, partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust land trusts, business trusts or other organizations, whether or not legal entities, and companies, governmental agencies and political subdivisions thereof.

“*Pledged Mortgage Loans*” has the meaning set forth in Section 3.1 hereof.

“*Post-Default Rate*” means in respect of any day (a “Post-Default Day”) an Event of Default has occurred and is continuing hereunder, a rate per annum on a 360 day per year basis equal to 2% per annum plus the applicable Floating Rate on such Post-Default Day.

“*Covered Loan*” means (a) a “high cost mortgage” as defined in Section 152(a) of the Home Ownership and Equity Protection Act of 1994; (b) a “high cost home loan” or a “predatory loan” within the meaning of any corresponding state or local laws, including but not limited to, the Georgia Fair Lending Act, the New York State Anti-Predatory Lending Law, and the New Jersey Homeownership Security Act; (c) any loan which under any other state or local law or ordinance could result in such loan being deemed to be unenforceable or could result in the refund or recession of all principal and/or interest paid or to be paid under such loan; and (d) any loan which under a state or local law may otherwise subject the originator and/or holder of such loan to civil or criminal sanctions related to the origination, holding, servicing, and/or transfer of such loan.

“*Purchase Commitment*” means a written commitment, in form and substance reasonably satisfactory to the Bank, issued in favor of the Company by an Investor pursuant to which that Investor commits to purchase one or more Mortgage Loans, along with the related correspondent or whole loan purchase agreement by and between the Company and the Investor, in form and substance reasonably satisfactory to the Bank, governing the terms and conditions of any such purchases.

“*Redemption Amount*” has the meaning set forth in Section 3.3 hereof.

“*Residential Mortgage Loan*” means a Mortgage Loan secured by a Mortgage covering improved real property containing one- to four-family residences, including, condominiums, and cooperative housing units.

“*Subsidiary*” means any corporation, association or other business entity in which more than fifty percent (50%) of the total voting power or shares of stock entitled to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more of the other Subsidiaries of that Person or a combination thereof.

“*VA*” means the Department of Veterans Affairs and any successor thereto.

Section 1.2. Other Definitional Provisions. (a) Accounting terms not otherwise defined herein shall have the meanings given them under GAAP.

(b) Defined terms may be used in the singular or the plural, as the context requires.

ARTICLE II

THE CREDIT

Section 2.1. The Commitment. (a) Subject to the terms and conditions of this Agreement, including the conditions precedent set forth in Section 4.1 below, and provided no Default has occurred and is continuing, the Bank agrees, from time to time during the period from the date hereof to the expiration date as provided in Section 2.6 hereof, to make Advances to, or on behalf of, the Company solely for the purchase of Mortgage Loans in mortgage loan portfolio pools of less than \$1,500,000, in the aggregate, at the time of purchase (and known between the parties individually as a “Flow Transaction” and collectively, as the “Flow Transactions”), *provided* the total aggregate principal amount which is outstanding at any one time of all such Advances shall not exceed Forty Million Dollars (\$40,000,000.00) unless there is a written request by the Company and subsequent approval by an officer of the Bank to modify this amount. The obligation of the Bank to make Advances hereunder up to such limits or the amount to which such limit may be reduced pursuant to Section 2.7(b) hereof, is hereinafter referred to as the “*Commitment*.” Within the Commitment, the Company may borrow, repay and re-borrow.

(b) Advances shall be used by the Company solely for the purpose of funding or financing the purchase of Flow Transaction Mortgage Loans and shall be made at the request of the Company, in the manner hereinafter provided in Section 2.2., secured by the assignment and pledge of such Mortgage Loans to Bank.

(c) Unless otherwise agreed to by Bank at its sole discretion, no Advance for the purchase of a Mortgage Loan shall exceed (100%) of the purchase price, inclusive of the transaction fee payable to Bank and all out of pocket costs incurred by the Company for the acquisition of such Mortgage Loan.

(d) Notwithstanding anything to the contrary herein, Advances may be obtained by the Company for the purpose of repurchasing Mortgage Loans that were sold by the Company to an Investor, provided, however, an Advance for such purpose shall be limited to 98% of the then unpaid principal balance of the to be repurchased Mortgage Loan, and such Advances shall be repaid not later than the later of (i) sixty (60) days from the date of such Advance, or (ii) at the time of and included with the next refinancing of Advances through a term loan issued under and pursuant to the Senior Debt Facility provided such repurchased Mortgage Loan qualifies for refinancing into the Senior Debt Facility.

Section 2.2.Procedures for Obtaining Advances. (a) The Company may obtain an Advance hereunder, subject to the satisfaction of the conditions set forth in Sections 4.1 hereof, upon compliance with the procedures set forth in this Section 2.2. Requests for Advances shall be initiated by the Company by delivering to the Bank a completed and signed request for an Advance (an “*Advance Request*”) on the then current form therefor approved by the Bank and provided to the Company. The current form in use by the Bank is set forth in **Exhibit B** hereto. The Bank shall have the right to revise or supplement approved forms of Advance Request by giving prior written-notice thereof to the Company. Bank, in all events, reserves the right to reject any Loan Request to finance the acquisition of a Covered Loan.

(b) The procedures to be followed by the Company in making an Advance Request for the purchase of Mortgage Loans, and the documents relating to the Collateral described in the Advance Request required to be delivered to the Bank, shall consist of those set forth in the following described **Exhibit C** attached hereto and hereby made part hereof entitled: Procedures and Documentation for Warehousing Residential Mortgage Loans.

The Bank shall have the right, on not less than thirty (30) days’ prior written notice to the Company, to modify said Exhibit(s) to conform to current legal requirements or requirements set forth by the regulators and independent certified auditors of the Bank, and, as so modified, said Exhibit shall be deemed part hereof for any Advance Requests thereafter delivered.

(c) Before funding any Advance, the Bank shall have three (3) Business Days to examine each Advance Request to be delivered prior to the Advance, as set forth in **Exhibit C** hereto, and may reject such of them as do not meet the requirements of this Agreement. Bank, in all events, reserves the right to reject any Advance Request to finance the purchase of (i) any Mortgage Loan which in the Bank’s judgment does not comply or did not comply at the time of origination with any federal or state statute or regulation applicable to such Mortgage Loan, and/or (ii) any Covered Loan.

(d) To make an Advance, the Bank shall debit this warehousing credit line account for the amount of the Advance and, unless otherwise agreed to by the Bank, the Bank shall wire the proceeds of such Advance to the Company's operating account no. _____ with the Bank.

(e) All Advances under this Agreement shall constitute a single indebtedness and all of the Collateral shall be security for the Note and for the performance of all obligations of the Company to the Bank.

(f) This Agreement shall be separate from and shall not be subject to the Senior Credit Facility except as specifically otherwise provided in this Agreement.

Section 2.3.Note. The Company's obligation to pay the principal of, and interest on, all Advances made by the Bank shall be evidenced by the promissory note (the "Note") of the Company dated as of the date hereof substantially in the form of **Exhibit A** attached hereto. The term "Note" shall include all extensions, renewals and modifications of the Note and all substitutions therefor. All terms and provisions of the Note are incorporated herein.

Section 2.4.Interest & Transaction Fees. (a) The unpaid principal balance of Advances shall bear interest, payable monthly, on the fifth (5th) day of each month, from the date of such Advance until paid in full, at a floating per annum rate of interest (the "Floating Rate") from time to time which is fifty (50) basis points less than the Index. The interest rate charged herein shall be adjusted monthly, effective on the first (1st) day of each month, based upon the Index in effect on the last Business Day of the then prior month. As used herein, the term "Index" shall mean the independent index, which is the Prime Rate as published from time to time in the Money Rates Column of *The Wall Street Journal*. If more than one such prime rate or a range of prime rates is published, the highest prime rate will be used when calculating the Index, and if *The Wall Street Journal* ceases to publish the Prime Rate, Lender and Company will mutually and reasonably agree upon an independent, replacement source for determining the Prime Rate when calculating the Index. Interest will be calculated on the basis of actual days elapsed over a 360 day year (365/360 basis). Interest will be billed monthly and will be due within ten (10) days of the issuance of the relevant monthly billing statement.

(b) If an Event of Default has occurred and is continuing hereunder, the Company shall be obligated to pay to Bank interest on the outstanding principal balance of outstanding Advances at a rate per annum equal to the Post-Default Rate until paid in full or such Event of Default is cured or waived by the Bank.

(c) The record of the dates and amounts of each Advance, the payments of principal and interest, and applicable interest rates and other information with respect thereto shall be maintained on the books and records of the holder of the Note and such records shall constitute prima facie evidence of the accuracy of the information so recorded.

Section 2.5.Principal Payments. (a) The outstanding principal amount of each Advance shall be payable in full upon the earliest to occur of (i) the occurrence of any event described in Section 2.5(c) hereof with respect to such Advance, (ii) the due date required for such principal amount upon the expiration or termination of the Commitment in accordance with and subject to the terms of Section 2.6 below; or (iii) the occurrence of an Event of Default.

(b) The Company shall have the right to prepay the outstanding Advances in whole or in part, from time to time, without premium or penalty or advance notice, and in accordance with and subject to the terms of Section 3.4 herein-below, the corresponding Pledged Mortgage Loans shall be released from Bank's security interest.

(c) The Mortgage Loans will be reviewed on a monthly basis and the Company shall be obligated to pay to the Bank, without the necessity of prior demand or notice from the Bank, and the Company authorizes the Bank to charge its account for, the amount of any outstanding Advance against a specific Mortgage Loan upon the occurrence of any of the following events:

1. One hundred twenty (120) calendar days elapse from the date of the Advance;
2. Ten (10) Business Days elapse from the date the Collateral Documents relating to a Mortgage Loan against which the Advance was made, were required to be received by the Bank or the custodian without the actual receipt thereof; or

3. Thirty (30) calendar days elapse from the date a Collateral Document relating to a Mortgage Loan against which the Advance was made was delivered to the Company for correction or completion, without being returned to the Bank, or such Collateral Documents, upon examination by the Bank, are found not to be in compliance with the requirements of this Agreement or the related Purchase Commitment; or

4. Upon sale of the Mortgage Loan; or

5. Upon a determination by Bank within thirty (30) days of the date of the Advance that the Mortgage Loan with respect to which such Advance was made is (a) a fraudulent loan, or (b) does not comply, in a material manner, with the requirements of this Agreement, provided, however, in such event, Company shall have sixty (60) days from the date of notification to Company of such determination to either re-pay such Advance to Bank, or in the event of subpart (b), to cure such defect; or

6. Upon a determination by the regulators or auditors of either the Bank or the Company, that the Mortgage Loan is a predatory loan, as defined in any applicable federal, state or local statute or regulation

(d) Notwithstanding the foregoing, any such Advance related to a Mortgage Loan meeting criteria 1 above may, at the option of Company, be refinanced through a term loan issued under and pursuant to the related Master Credit and Security Agreement dated October 13, 2004, between the Bank, certain now existing and hereafter arising subsidiaries of the Company (individually, a "*Company Subsidiary*" and collectively and severally, the "*Company Subsidiaries*"), and the Company (the "*Senior Credit Facility*") (subject to the terms, conditions, covenants and any amendments thereof and provided that term loan advances are then available under such Senior Credit Facility), provided, further however, in the event that such Advance relates to a Mortgage Loan that has been originated with the specific intent to sell such Mortgage Loan to a 3rd party, not more than ninety-eight percent (98%) of such advance may be refinanced with funds from said Senior Credit Facility.

(e) Upon making such payment to the Bank as outlined in 2.5(c) above, the Company shall be deemed to have redeemed such Mortgage Loan from pledge (other than in the event of a re-finance under the Senior Credit Facility), and the Collateral Documents relating thereto shall be promptly released by the Bank to the Company or to the applicable Investor. The Bank agrees to take such other steps reasonably requested by the Company in connection with such release.

Section 2.6. Expiration and/or Termination of Commitment. (a) Unless terminated earlier as permitted hereunder, the Commitment shall expire of its own term, and without the necessity of action by the Bank, **on August 11, 2007**. Notwithstanding anything to the foregoing, for any Advance made by the Bank prior to the termination date, the Company shall still have one hundred twenty (120) days from the date of the Advance to pay the Bank the amount of any outstanding Advance or the Company may, at its option, re-finance any such Outstanding Advance through a term loan issued under the Senior Credit Facility.

(b) The Bank shall have the right, without cause, at any time to terminate the Agreement on not less than sixty (60) days' prior written notice to the Company. During such sixty (60) day notice period, Company may continue to obtain Advances in accordance with the terms of this Agreement, and upon expiration of such sixty (60) day notice period, as set forth above, Company shall continue to have one hundred twenty (120) days from the date of each Advance to pay the Bank the amount of any then outstanding Advances or the Company may, at its option, re-finance any such Outstanding Advances through a term loan issued under the Senior Credit Facility.

(c) The Bank shall also have the right to terminate this Agreement and the line of credit extended to the Company pursuant to the terms of this Agreement, upon any adverse material change in the Company's financial condition as defined by the Bank in its reasonable discretion during the term of this Agreement upon written notice to the Company. For purposes of this Section 2.6(c), the term "adverse material change" means Company's failure to comply with and maintain during the term of this Agreement any of the Financial Requirements set forth under Section 6.15. Notwithstanding the foregoing, the Company shall continue to have one hundred twenty (120) days from the date of each Advance to pay the Bank the amount of any then outstanding Advances or, at the discretion of the Bank, may re-finance any such Outstanding Advances through a term loan issued under the Senior Credit Facility.

(d) The Bank shall have the right from time to time and in its sole discretion, to extend the term of this Agreement with prior written notice to the Company. The length of any such extension shall also be determined in the Bank's sole discretion. Such extension may be made subject to the renegotiation of the terms hereunder and to any other such conditions as the Bank may deem necessary. Under no circumstances shall such an extension by the Bank be interpreted or construed as the Bank's forfeiture of any of its rights, entitlements or interest created hereunder. The Company acknowledges and understands that the Bank is under no obligation whatsoever to extend the term of this Agreement beyond its expiration date as originally stated in this Agreement, or if extended, to further extend the expiration date beyond any such extension thereof.

Section 2.7.Method of Making Payments; Reductions in Commitment. (a) Except as otherwise specifically provided herein, all payments hereunder shall be received by the Bank on the date when due and shall be made in lawful money of the United States of America in immediately available funds at the office of the Bank, at **East Liverpool, Ohio, P.O. Box 5399, zip code 43920**, or at such other place as the Bank from time to time shall designate. Whenever any payment to be made hereunder or under the Note shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and, with respect to payments of principal, the interest thereon shall be payable at the applicable rate during such extension. Funds received by the Bank after 4:00 p.m. (East Liverpool, Ohio, time) on a Business Day shall be deemed to have been paid by the Company on the next succeeding Business Day.

(b) The Company shall have the right, at any time and from time to time, effective as of the first day of any calendar month, to terminate in whole or permanently reduce in part, without premium or penalty, the amount of the Commitment in excess of the then outstanding principal amount of all Advances hereunder. The Company shall give written notice to the Bank designating the date of such termination or reduction not less than five (5) Business Days' prior to the date such termination or reduction is to take effect, and the amount of any partial reduction of the Commitment shall be in an aggregate minimum amount of One Hundred Thousand Dollars (\$100,000.00) or integral multiples of One Hundred Thousand Dollars (\$100,000.00) in excess of that amount.

Section 2.8.Late Payment Fees. In the event the Company fails to make any payment (whether of principal or interest) on the date such payment is due and payable hereunder or under the Note, and such failure continues for more than fifteen (15) days after notice from the Bank, the Company shall pay to the Bank, upon demand therefor, a late payment fee equal to **five percent (5%)** of the amount of such payment or **One Thousand Dollars (\$1,000.00)**, whichever is greater.

Section 2.9.Net Payments. All payments with respect to any Advance shall be made without offset or counterclaim and free from any present or future taxes, levies, imports, duties or other similar charges of whatsoever nature imposed by any government or any political subdivision or taxing authority hereof, other than any taxes on or measured by the net income of the Bank.

Section 2.10.Commitment & Transaction Fees. The Company shall pay the Bank the transaction fee equal to **Fifty Dollars (\$50.00)** for each Advance obtained under the terms of this Agreement which fee shall be billed monthly and will be due within ten (10) days of the issuance of the relevant monthly billing statement. In addition, so long as this Agreement is in effect, the Company shall annually pay the Bank a commitment fee computed as follows: **Ten Thousand Dollars (\$10,000.00)** multiplied by a fraction, the numerator of which is equal to the average monthly un-borrowed amount of the Commitment during the previous year, and the denominator of which is equal to the Commitment. The commitment fee shall be payable by the Company to the Bank within thirty (30) days of the anniversary date of this Agreement. The Bank shall provide the Company with an annual statement showing its computation of the average daily un-borrowed amount of the Commitment for the previous year. Unless the Company contests the accuracy of the Bank's statement within ten (10) days of receipt, the Bank may debit this credit line account for the amount of the commitment fee.

ARTICLE III

COLLATERAL

Section 3.1. Assignments and Grant of Security Interest. In consideration of the Commitment, and as security for (i) the payment of the Note and (ii) payment and performance of all of the Company's obligations hereunder, the Company hereby grants to the Bank a security interest in all rights and interest of the Company in and to the following described property (collectively, the "Collateral"):

(a) All Mortgage Loans, including all Mortgage Notes and Mortgages evidencing or securing such Mortgage Loans and all other related Mortgage Loan Documents which from time to time are delivered, or caused to be delivered, or which heretofore have been delivered to the Bank (including delivery to a third party on behalf of the Bank) pursuant hereto or in respect of which an Advance has been made by the Bank or which is hereafter made by the Bank hereunder (the "Pledged Mortgage Loans"); the Company shall deliver a schedule, in form and detail acceptable to Bank, of the Mortgage Loan(s) being purchased from the proceeds of such Advance.

(b) All mortgage insurance and all commitments issued by Insurers to insure or guarantee any Pledged Mortgage Loan; all Purchase Commitments held by the Company covering the Pledged Mortgage Loans and all proceeds resulting from the sale thereof to Investors pursuant thereto; and all personal property, contract rights, collection and servicing rights and servicing fees and income, accounts and general intangibles of whatsoever kind relating to the Pledged Mortgage Loans; said Insurer commitments and the Purchase Commitments, and all other documents or instruments delivered to the Bank in respect of the Pledged Mortgage Loans, and including, without limitation, the right to receive all insurance proceeds and condemnation awards which may be payable in respect of the premises encumbered by any Pledged Mortgage Loan;

(c) All right, title and interest of the Company in and to all files, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records, information and data of the Company relating to the Pledged Mortgage Loans;

(d) All rights, but not any obligations or liabilities under all purchase agreements relating to the Company's acquisition of Pledged Mortgage Loans.

(e) All property of the Company, in any form or capacity now or at any time hereafter in the possession or direct or indirect control of the Bank relating to the Pledged Mortgage Loans (including possession by a parent company, affiliate or subsidiary of the Bank);

(f) All rights (but not any obligations or liabilities) of the Company under the Custodial Agreements; and

(g) All replacements, products and proceeds of any and all of the foregoing.

In addition to the foregoing grant of a security interest to the Bank in the Collateral, the Company hereby assigns and delivers to the Bank and grants to Bank a security interest in all of the following: (i) the Company's right (but not any liabilities of the Company) under all Purchase Commitments now held or hereafter acquired by the Company covering Pledged Mortgage Loans and all proceeds resulting from the sale of Pledged Mortgage Loans pursuant thereto; and (ii) all rights of the Company (but not any liabilities of the Company) with respect to Investors to the extent related to the Pledged Mortgage Loans. Upon the request of the Bank, the Company shall execute any further document or instrument reasonably requested by the Bank to further evidence or effectuate the assignments set forth in this subparagraph.

Without limiting the foregoing, it is the express intention of the Company, that the security interest granted above is and shall be a continuing security interest covering all now present (or then present), and all future obligations of the Company to Bank hereunder or arising hereunder; and that the security interests granted herein by the Company shall remain in effect until all indebtedness secured hereby has been paid in full and the Commitment has expired or has been otherwise terminated.

Upon the request of the Bank, the Company shall execute any further document or instrument reasonably requested by the Bank to further evidence or effectuate the assignments and security interests set forth in this Section. Furthermore, the Company (a) hereby authorizes Bank to sign (if required) and file financing statements at any time with respect to any of the Collateral, without such financing statements being executed by, or on behalf of, the Company, (b) shall, at any time on request of Bank, execute or cause to be executed financing statements in respect of any Collateral, and (c) shall reasonably cooperate to provide any information reasonably required by the Bank in connection with the filing of financing statements with respect to the Collateral. The Company agrees to pay all filing fees, including fees for filing continuation statements in connection with such financing statements, and to reimburse Bank for all costs incurred in connection therewith.

Section 3.2.Reserved.

Section 3.3.Right of Redemption from Pledge. Provided no Default or Event of Default has occurred and is continuing, the Company may redeem a Mortgage Loan from pledge, by either paying, or causing an Investor to pay, to the Bank, for application to prepayment of the principal balance of the Note, an amount (the "*Redemption Amount*") equal to amount of the Advance made with respect to such Mortgage Loan, which is still outstanding. To determine the exact amount of an Advance for an individual Mortgage Loan under this Section 3.3, the Bank will be provided, prior to making an Advance, with loan level pricing detailing the percentage price to be paid, (rounded to the nearest tenth of one percent) and the proposed funding cost to the Bank (rounded to the nearest one dollar) for each Mortgage Loan proposed for purchase by the Company.

Section 3.4. Collection and Servicing Rights. (a) The Company agrees that the “Lock Box Terms” set forth on **Exhibit F** shall be utilized by Company for the receiving, collecting, and processing of all sums payable to the Company in respect of the Collateral (the “*Lock-box Terms*”). Under that Lock-box Terms the Bank shall be entitled to receive all sums payable to the Company in respect of the Collateral. All amounts payable to the Company for the purchase by any Investor of any Pledged Mortgage Loans shall also be paid directly to the Bank. The Company shall instruct each Pledged Mortgage Loan obligor to direct all payments due under the Pledged Mortgage Loans, and shall direct each Investor to pay the amounts payable for the purchase of such Pledged Mortgage Loans, directly to the Lockbox address at the Bank. Without limiting the foregoing, Following the occurrence of any Event of Default, the Bank may, at any time thereafter, upon written notice to the Company, be entitled to service, receive and collect all sums payable to the Company in respect of the Collateral, and in such case: (i) the Bank in its discretion may, in its own name or in the name of the Company or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Collateral, but shall be under no obligation to do so; and (ii) all amounts so received and collected by the Bank shall be held by it as part of the Collateral.

(b) The Bank shall have the right on not less than thirty (30) days prior notice to the Company to reasonably modify the Lock-box Terms to conform to then current Bank practices upon mutual agreement of Company, not to be unreasonably withheld, and/or banking regulations.

Section 3.5. Return of Collateral at End of Commitment. If (i) the Commitment shall have expired or been terminated, and (ii) no Advances, interest or other amounts evidenced by the Note or due under this Agreement shall be outstanding and unpaid, the Bank shall promptly deliver or release all Collateral in its possession to the Company. The Bank shall also execute and deliver such assignments and other instruments and documents reasonably requested by the Company to vest title in the Collateral into the Company. The receipt of the Company for any Collateral released or delivered to the Company pursuant to any provision of this Agreement shall be a complete and full acquittance for the Collateral so returned.

ARTICLE IV

CONDITIONS PRECEDENT

Section 4.1. Advances. The obligation of the Bank to make Advances under this Agreement are subject to the following conditions precedent:

(a) The Bank shall have received the following, all of which must be satisfactory in form and content to the Bank, in its reasonable discretion:

(1) On or before the date hereof, the Note duly executed by the Company;

(2) On or before the date hereof of Certified copies of the Company's articles of organization and by-laws, and certificate of good standing dated no less recently than one (1) month prior to the date of the initial Advance;

(3) On or before the date hereof of an original resolution of the board of directors of the Company, certified as of the date of this Agreement by its secretary, authorizing the execution, delivery and performance of this Agreement and the Note, and all other instruments or documents to be delivered by the Company pursuant to this Agreement;

(4) On or before the date hereof of a true and complete copy of the audited financial statements of the Company for the most recent fiscal year-end containing a balance sheet and related statements of income and retained earnings (the "Statement Date") and changes in financial position for the period ended on the Statement Date, all prepared in accordance with GAAP;

(5) On or before the date hereof of copies of the certificates, documents or other written instruments which evidence the Company's eligibility described in Section 5.13 hereof, all in form and substance satisfactory to the Bank;

(6) On or before the date hereof of Copies of the Company's errors and omissions insurance policy or mortgage impairment insurance policy and blanket bond coverage policy, or certificates in lieu of policies, all in form and content satisfactory to the Bank, showing compliance by the Company; and

(7) On or before the date hereof of a Power of Attorney to indorse negotiable instruments in the form of **Exhibit E**.

(8) On or before the date hereof of The Bank shall have received evidence satisfactory to it as to the due filing and recording in all appropriate offices of all financing statements and other instruments as may be necessary to perfect the security interest of the Bank in the Collateral under the Uniform Commercial Code of the State of New York or other applicable law.

(9) Prior to each Advance, (a) the Bank shall have received a true and complete copy of each of the following: (i) the purchase agreement relating to the acquisition of the Mortgage Loan(s) being acquired with the Advance, and the assignment documents assigning such Mortgage Loan(s) to the Company or, where applicable, the Mortgage Identification Number ("MIN") for each Mortgage Loan registered on the MERS® System to track the transfer of ownership and/or servicing rights to the Company; and evidence that such assignment to Borrower has been appropriately registered on the MERS® System; and (ii) a schedule, in form and detail acceptable to Bank of the Mortgage Loan(s) being purchased; and (b) the Company shall have delivered to the Bank an Advance Request, and shall have delivered to the Bank or the Custodian the Collateral Documents called for under this Agreement, and shall have satisfied the procedures set forth in, Sections 2 and the applicable Exhibits related thereto. All items delivered to the Bank must be reasonably satisfactory to the Bank in form and content, and the Bank may reject such of them as do not meet the requirements of this Agreement.

(10) The representations and warranties of the Company contained in Article V hereof shall be true and correct in all material respects as if made on and as of the date of each Advance unless the same by its terms relates to an earlier date.

(11) The Company shall have performed all agreements to be performed by it hereunder and under the Note, and after giving effect to the requested Advance, there shall exist no Default or Event of Default hereunder or under the Note.

(12) As of the date of such Advance, the Company shall not have (i) incurred any material liabilities, direct or contingent, other than in the ordinary course of its business that would render it to be noncompliant with the financial requirements set forth in Article 6 herein, since the dates of the Company's most recent financial statements theretofore delivered to the Bank, or (ii) experienced any other material adverse change in its business or operations.

Acceptance of the proceeds of the requested Advance by the Company shall be deemed a representation by the Company that all conditions set forth in this Section 4 shall have been satisfied as of the date of such Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Agreement and make each Advance, the Company hereby represents and warrants to the Bank, as of the date of this Agreement and as of the date of each Advance Request and of each Advance, that:

Section 5.1.Organization; Good Standing. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has the full legal power and authority to own its property and to carry on its business as currently conducted and is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary, except in jurisdictions, if any, where a failure to be in good standing has no material adverse effect on the business, operations, assets or financial condition of the Company.

Section 5.2. Authorization and Enforceability. The Company has the power and authority to execute, deliver and perform this Agreement, the Note and all other documents contemplated hereby or thereby. The execution, delivery and performance by the Company of this Agreement, the Note and all other documents contemplated hereby or thereby and the making of the borrowing hereunder and thereunder, have been duly and validly authorized by all necessary corporate action on the part of the Company (none of which actions have been modified or rescinded, and all of which actions are in full force and effect) and do not and will not conflict with or violate any provision of law or of the articles of organization or bylaws of the Company, conflict with or result in a breach of or constitute a default or require any consent under, or result in the creation of any Lien upon any property or assets of the Company (other than pursuant to this Agreement), or result in or require the acceleration of any indebtedness of the Company pursuant to any agreement, instrument or indenture to which the Company is a party or by which the Company or its property may be bound or affected. This Agreement, the Note and all other documents contemplated hereby or thereby constitute legal, valid, and binding obligations of the Company enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights and by general principles of equity.

Section 5.3. Approvals. The execution and delivery of this Agreement, the Note and all other documents contemplated hereby or thereby and the performance of the Company's obligations hereunder and thereunder do not require any license, consent, approval or other action of any state or federal agency or governmental or regulatory authority.

Section 5.4. Financial Condition. The balance sheet of the Company as at the Statement Date, and the related statements of income and cash flows for the fiscal year ended on the Statement Date, heretofore furnished to the Bank, fairly present the financial condition of the Company as at the Statement Date and the results of its operations for the fiscal period ended on the Statement Date. The Company had, on the Statement Date, no known liabilities, direct or indirect, fixed or contingent, matured or unmatured, or liabilities for taxes, long-term leases or unusual forward or long-term commitments not disclosed by, or reserved against in, said balance sheet and related statements, except as heretofore disclosed to the Bank in writing or otherwise reflected on the Company's balance sheet, and except for the Bank's extension(s) of credit to the Company Except for financial statements prepared for interim periods between the fiscal year-end, all financial statements were prepared in accordance with GAAP applied on a consistent basis throughout the periods involved. Since the Statement Date, there has been no material adverse change in the business, operations, assets or financial condition of the Company, nor is the Company aware of any state of facts which (with or without notice or lapse of time or both) would or could result in any such material adverse change.

Section 5.5. Litigation. There are no actions, claims, suits or proceedings pending, or to the knowledge of the Company, threatened against or affecting the Company in any court or before any arbitrator or before any government commission, board, bureau or other administrative agency which, if adversely determined, may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of the Company.

Section 5.6.Licenses; Compliance with Laws. The Company has all material permits, licenses, authorizations and approvals with all governmental authorities or agencies that are required in order to permit it to conduct its business as presently conducted, and all such material permits, licenses, authorizations and approvals that are required to conduct its business as presently conducted are in full force and effect. The Company, to the best of its knowledge, is not in violation of any provision of any law, or of any judgment, award, rule, regulation, order, decree, writ or injunction of any court or public regulatory body or authority which might have a material adverse effect on the business, operations, assets or financial condition of the Company.

Section 5.7.Regulation U. No part of the proceeds of any Advances made hereunder will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

Section 5.8.Investment Company Act. The Company is not an “investment company,” or a company controlled by an “investment company,” within the meaning of the Investment Company Act of 1940, as amended.

Section 5.9.Payment of Taxes. The Company has filed or caused to be filed all federal, state, and local income, excise, property and other tax returns with respect to the operations of the Company, which to the knowledge of the Company are required to be filed, all such returns are true and correct in all material respects, and the Company has paid or caused to be paid all taxes as shown on such returns or on any assessment to the extent that such taxes have become due, except in cases where the Company has disputed in good faith the amount of said taxes.

Section 5.10.Agreements. The Company is not a party to any agreement, instrument or indenture or subject to any restriction materially and adversely affecting its business, operations, assets or financial condition, except as disclosed in the financial statements described in this Agreement. The Company is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement, instrument, or indenture which default could have a material adverse effect on the business, operations, properties or financial condition of the Company. No holder of any indebtedness of the Company has given notice of any asserted default thereunder, and no liquidation or dissolution of the Company and no receivership, insolvency, bankruptcy, reorganization or other similar proceedings relative to the Company or any of its properties is pending, or to the knowledge of the Company, threatened.

Section 5.11.Title to Properties. The Company has good, valid, insurable (in the case of real property) and marketable title to all material portions of its properties and assets (whether real or personal, tangible or intangible) reflected on the financial statements described in this Agreement, except for such properties and assets as have been disposed of since the date of such financial statements as no longer used or useful in the conduct of its business or as have been disposed of in the ordinary course of business, and all such properties and assets are free and clear of all Liens except as disclosed in such financial statements, and liens created in favor of Bank (the “Bank Liens”)

Section 5.12.Reserved.

Section 5.13.Eligibility. The Company has and shall maintain in good standing all state and local permits, licenses, approvals, registrations and qualifications which are required in order to permit the Company to conduct its business, in all material manners, as presently conducted, and which if not maintained in good standing could materially and adversely affect the Companies business, operations, assets, or financial condition or which could materially and adversely impair the ability of Company to perform its obligation hereunder.

Section 5.14.Special Representations Concerning Collateral. The Company hereby represents and warrants to the Bank, as of the date of this Agreement and as of the date of each Advance Request and of each Advance, that:

(a) The Company owns the Collateral free and clear of any Lien, except for the security interest created by this Agreement, and any rights of Investors and Insurers of the Pledged Mortgage Loans. No financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of Bank relating to this Agreement. The Company has no trade name.

(b) This Agreement, together with the Bank's possession of the Mortgage Notes and a duly filed financing statement, creates a valid and perfected first priority security interest in the Mortgage Notes in favor of the Bank, securing the payment of the Note, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken or shall be taken at the time of the initial Advance hereunder.

(c) No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (and has not been obtained, delivered or filed, as applicable) either (i) for the grant by the Company of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Company, or (ii) for the perfection of or the exercise by the Bank of its rights and remedies hereunder, other than the filing of a financing statement which has been duly executed by the Company and delivered to the Bank for filing.

(d) The Mortgage Loan Documents have been duly executed by the mortgagor and create valid and legally binding obligations of the mortgagor, enforceable in accordance with their terms, except as may be limited by bankruptcy or other similar laws affecting the enforcement of creditors' rights generally, and general principles of equity, and to the knowledge of the Company there are no rights of rescission, set-offs, counterclaims or other defenses with respect thereto. The full original principal amount of each Mortgage Loan (net of any discounts) has been fully advanced or disbursed to the mortgagor named therein. There is no requirement for future advances and except for Mortgage Loans insured under Section 203(k) of the National Housing Act, any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been satisfied. To Company's knowledge and except as disclosed to Bank, there is no material default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note, and no event has occurred which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a material default, breach, violation or event of acceleration, other than waivers in the ordinary course of servicing the Mortgage Loan which do not have a material adverse effect of the Collateral; the Company has not waived any material default, breach, violation or event of acceleration; and the terms of the Mortgage Loan have in no way been waived, impaired, changed or modified. To Company's knowledge and except as disclosed to Bank, all tax identifications and property descriptions are legally sufficient; tax segregation, where required, has been completed and all taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents which previously became due and owing have been paid, or an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid.

(e) Except as disclosed to Bank in writing, to the best of the Company's knowledge based upon due diligence conducted by the Company, each of the Mortgage Loans has been originated, made and serviced in material compliance with all industry standards, and all applicable federal, state and local statutes, regulations and rules, including, without limitation, the Federal Truth-in-Lending Act of 1968, as amended, and Regulation Z thereunder, the Federal Fair Credit Reporting Act, the Federal Equal Credit Opportunity Act, the Federal Real Estate Settlement Procedures Act of 1974, as amended, and Regulation X thereunder, the Home Ownership and Equity Protection Act of 1994, Section 32 of regulation Z thereunder, and all applicable usury, licensing, real property, consumer protection and other laws.

(f) Except as disclosed to Bank in writing, to the best of the Company's knowledge based upon due diligence conducted by the Company, each of the Mortgage Loans presently is covered by a policy of hazard insurance, unless the Mortgage is not a first lien mortgage, (and flood insurance and insurance against other insurable risks and hazards as required), in amounts not less than outstanding principal balance of the Mortgage Loans or such maximum lesser amount as permitted by applicable law, all in a form usual and customary in the industry and which is in full force and effect, and all amounts required to have been paid under any such policy have been paid;

(g) Except as is disclosed to Bank in writing, to the best of the Company based upon due diligence conducted by the Company, no Mortgage Loan is a Covered Loan.

(h) A title commitment or a valid and enforceable title policy currently in full force and effect has been issued for each Mortgage Loan which is a first mortgage lien, and in the case of title insurance, in an amount not less than the original principal amount of such Mortgage Loan, and which title opinion opines or which title policy insures that the Mortgage relating thereto is a valid first lien on the property therein described and that the mortgaged property is free and clear of all encumbrances and liens having priority over the first lien of the Mortgage except for taxes not yet due and payable and minor title irregularities that do not have a material adverse effect on the use or marketability of the mortgaged property.

(i) All escrow/custodial accounts have been established in accordance with applicable laws and by the terms of the related Mortgages.

(j) Except as disclosed to Bank in writing, any and all payments made with respect to the individual Pledged Mortgage Loans have been and will be applied to such Mortgage Loan in accordance with the terms of the Mortgage Note and Mortgage and any modifications thereof evidencing and securing that Mortgage Loan.

ARTICLE VI

AFFIRMATIVE COVENANTS

The Company agrees that so long as the Commitment is outstanding or there remain any obligations of the Company to be paid or performed under this Agreement or under the Note, the Company agrees as follows:

Section 6.1.Payment of Note. The Company will punctually pay or cause to be paid the principal and interest on and all other amounts due and payable hereunder and under the Note in accordance with the terms hereof and thereof.

Section 6.2.Financial Statements and Other Reports. The Company will deliver or cause to be delivered to the Bank, or make available to the Bank, as applicable:

(a) Upon request by the Bank, as soon as available and in any event within forty-five (45) days after each calendar quarter, statements of income and cash flows of the Company for the immediately preceding quarter, and related balance sheet as of the end of the immediately preceding quarter, all in reasonable detail and certified by the chief financial officer or other appropriate officer of the Company, subject, however, to year-end audit adjustments.

(b) As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year: a true and complete copy of the Company's independently audited financial statements of the Company for the then most recent fiscal year-end (the "*Statement Date*"), containing a balance sheet and related statements of income and retained earnings and changes in financial position for the period ended on the Statement Date, all prepared in accordance with GAAP and accompanied by an opinion of an accounting firm reasonably satisfactory to the Bank, or other independent public accountants of recognized standing selected by the Company and acceptable to the Bank, as to said financial statements and a certificate signed by the chief financial officer or other appropriate officer of the Company stating that said financial statements fairly present the financial condition and results of operations of the Company as at the end of, and for, such year.

(c) Such other reports in respect of the Mortgage Loans pledged as collateral, in such detail and at such times as the Bank in its reasonable discretion may request at any time or from time to time.

(d) Upon request, copies of all audits, examinations and reports concerning the operations of the Company from any licensing authority, to the extent not subject to restrictions on disclosure,

(e) From time to time, with reasonable promptness, such further information regarding the business, operations, properties or financial condition of the Company as the Bank may reasonably request.

Except for financial statements prepared for interim periods between the fiscal year end, all financial statements and reports furnished to the Bank hereunder shall be prepared in accordance with GAAP, applied on a basis consistent with that applied in preparing the financial statements as at, and for the period ended, the Statement Date (except to the extent otherwise required to conform to good accounting practice).

Section 6.3.Maintenance of Existence; Conduct of Business. The Company will preserve and maintain its corporate existence in good standing and all of its material rights, privileges, licenses, qualifications and franchises necessary or desirable in the normal conduct of its business, including, without limitation, its eligibility as an approved servicer of mortgage loans, where required, as described under Article 5 hereof; and make no material change in the nature or character of its business, if such material change would result in Company being unable to fulfill or complete its duties and obligations under this Agreement.

Section 6.4.Compliance with Applicable Laws. The Company will comply with the requirements of all applicable laws, rules, regulations (including laws, rules and regulations relating to predatory lending) and orders of any governmental authority and prudent industry standards, a breach of which could materially adversely affect its business, operations, assets, or financial condition or which could materially adversely impair the ability of Company to perform its obligation hereunder, except where contested in good faith and by appropriate proceedings.

Section 6.5.Inspection of Properties and Books. The Company will permit authorized representatives of the Bank, its parent company or affiliates (i), to discuss the business, operations, assets and financial condition of the Company and its Subsidiaries with their officers and employees, (ii) to examine their books, records, information and service systems and properties, and make copies or extracts thereof subject to applicable laws with respect to confidentiality of customer records, (iii) to examine and audit the Company's Loan accounts, individual Pledged Mortgage Loans, and related documentation and Collateral, and (iv) for those purposes, to visit the Company's, all at such reasonable times as the Bank may request. Upon the request of its accountants, the Company will provide its accountants with a copy of this Agreement promptly after the execution hereof and will instruct its accountants to answer candidly and fully any and all questions that the officers of the Bank or any authorized representatives of the Bank may address to them in reference to the financial condition or affairs of the Company. In addition to the foregoing, the Company shall provide, or cause to be provided, live, "real time" read/view only access to the data system(s) for all records maintained by the Company related to the Pledged Mortgage Loans. The purposes or uses for which the Bank may use the right of access to such data system records, and the rights of inspection, examination, and audit set forth in this Section shall include, without limitation, the following: (i) to ensure that the administration, and their payment processing remain in compliance with the terms of this Agreement; (ii) to enable the Bank to periodically sample or test the flow of payments received from the Pledged Mortgage Loan obligors; and (iii) to enable the Bank to periodically determine the value of the Bank's Collateral from time to time and to ensure that the Collateral continues to meet the Bank's underwriting standards throughout the life of those Mortgage Loans.

Section 6.6. Notice. The Company will give prompt written notice to the Bank of (a) any action, suit or proceeding instituted against the Company in any federal or state court or before any commission or other regulatory body (federal, state or local, domestic or foreign) which may reasonably be expected to result in damages of Five Hundred Thousand Dollars (\$500,000.00) or more, or of any written notification that the filing of any such action, suit or proceeding against the Company is imminent, and containing the details thereof, (b) the filing, recording or assessment of any federal, state or local tax lien of more than \$100,000.00, individually or in the aggregate, against the Company, or any of its assets, which lien is not released or satisfied within sixty (60) days and the Company has not commenced and is not then diligently pursuing appropriate actions to stay enforcement of the lien or assessment or to contest the validity of such filing, (c) the occurrence of any Default or Event of Default hereunder, (d) the actual or written threat of the imminent suspension, revocation or termination of the Company's eligibility, in any respect, as an approved servicer of mortgage loans, where required, as described under Section 5.13 hereof which will have a material and adverse effect on the Company's business operations, , and (e) any other action, event or condition of any nature which may lead to or result in a material adverse effect upon the business, operations, assets, or financial condition of the Company or which, with or without notice or lapse of time or both, would constitute a default under any other material agreement, instrument or indenture to which the Company is a party or to which the Company, its properties or assets may be subject.

Section 6.7. Payment of Debt, Taxes, etc. The Company will pay and perform all obligations of the Company promptly and in accordance with the terms thereof and pay and discharge or cause to be paid and discharged promptly all taxes, assessments and governmental charges or levies imposed upon the Company or upon its income, receipts or properties before the same shall become past due, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might become a Lien or charge upon such properties or any part thereof; *provided, however,* that the Company shall not be required to pay taxes, assessments or governmental charges or levies or claims for labor, materials or supplies for which the Company shall have obtained an adequate bond or adequate insurance or which are being contested in good faith and by proper proceedings which are being reasonably and diligently pursued.

Section 6.8. Insurance. The Company will maintain (a) errors and omissions insurance or mortgage impairment insurance and blanket bond coverage, with responsible companies and in such amounts as is customary and usual for a prudent mortgage servicing institution, and (b) liability insurance and fire and other hazard insurance on its properties, with responsible insurance companies, in such amounts and against such risks as is customarily carried by similar businesses operating in the same vicinity, and (c) within thirty (30) days after written notice from the Bank, will obtain such additional insurance as the Bank shall reasonably require, all at the sole expense of the Company. Copies of all such policies shall be furnished to the Bank without charge upon request of the Bank.

Section 6.9 Reserved.

Section 6.10. Purchased Loans. The Company will indemnify and hold the Bank harmless from and against any loss, including reasonable attorneys' fees and costs, attributable to the failure of any correspondent of the Company to comply with the disbursement or instruction letter or letters of the Company or of the Bank relating to Mortgage Loans purchased by the Company with Advances hereunder.

Section 6.11 Loan Purchase Agreement. The Company will use its best commercially reasonable efforts, reasonably and in good faith, to include covenants, representations, and warranties covering the following items in its Mortgage Loan purchase agreements with respect to the acquisition of the Pledged Mortgage Loans, and cause such purchase agreements to include, except as disclosed to Bank in writing: (i) standard representations and warranties as to the due organization of the seller and the seller's authorization to sell the loans; (ii) representations and warranties regarding the mortgage loans being purchased, and the documentation for the same consistent with general commercial standards, but in any event, having representations and warranties consistent with the requirements for Mortgage Loans set forth in this Agreement; (iii) standard remedies for breach of contract; (iv) covenant that the seller will buy back from the Company (or any assignee) any mortgage loan which does not comply with representations and warranties regarding it; and (vi) covenant that the seller will indemnify and hold the Company, and any assignee, harmless against any and all damages which the indemnified party may suffer on account of any mortgage loan which does not meet representations and warranties.

Section 6.12. Other Loan Obligations. The Company will perform in all material respects all obligations under the terms of each loan agreement, note, mortgage, security agreement or debt instrument by which the Company is bound or to which any of its property is subject, and will promptly notify the Bank in writing of the cancellation or reduction of any of its other mortgage warehousing lines of credit or agreements with any other lender.

Section 6.13. Use of Proceeds of Advances. The Company will use the proceeds of each Advance solely for the purpose of financing the purchase of Mortgage Loans in accordance with the terms, conditions, requirements and representations and warranties set forth in this Agreement.

Section 6.14. The Company will assist the Bank in the performance of the Bank's due diligence in response to Advance Requests in order for the Bank to gain assurance that the terms and conditions of this Agreement will be met; and The Company will perform reasonable due diligence when agreeing to purchase Mortgage Loans to be financed by Advances from Bank hereunder in order to ensure that the Mortgage Loans comply with the terms and conditions of this Agreement.

Section 6.15. Financial Requirements. (a) Net Worth. The Company will maintain at all times a Net Worth equal to or greater than **\$10,000,000.00**.

Section 6.16. Custodial Agreement. The Company will maintain in effect the Custodial Agreement, or another custodial agreement with another custodian with substantially the same terms as the Custodial Agreement.

Section 6.17. Special Affirmative Covenants Concerning Collateral. (a) The Company warrants and will defend the right, title and interest of the Bank in and to the Pledged Mortgage Loans against the claims and demands of all persons whomsoever.

(b) The Company shall service or cause to be serviced in all material respects all Pledged Mortgage Loans in accordance with all applicable governmental requirements, including without limitation taking all actions necessary to enforce the obligations of the obligors under such Pledged Mortgage Loans. The Company shall hold all escrow funds collected in respect of Pledged Mortgage Loans in trust, without commingling the same with non-custodial funds, and apply the same for the purposes for which such funds were collected.

(c) The Company shall execute and deliver to the Bank such Uniform Commercial Code financing statements with respect to the Collateral as the Bank may reasonably request. The Company shall also execute and deliver to the Bank such further instruments of sale, pledge or assignment or transfer, and such powers of attorney, as reasonably required by the Bank, and shall do and perform all matters and things necessary or desirable to be done or observed, for the purpose of effectively creating, maintaining and preserving the security and benefits intended to be afforded the Bank under this Agreement. The Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code of the State of Ohio, or any other applicable law, in addition to all rights provided for herein.

(d) The Company shall maintain, at its principal office or in a regional office approved by the Bank, or in the office of the custodian under the Custodial Agreement, and, upon request, shall make available to the Bank the originals, or copies in any case where the original has been delivered to the Bank, or to an Investor, of its Mortgage Notes and Mortgages included in Mortgage Loans, Purchase Commitments, and all related Pledged Mortgage Loan documents and instruments, and all files, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records and other information and data relating to the Collateral.

(e) Any and all payments made with respect to the individual Pledged Mortgage Loans will be applied to such Pledged Mortgage Loan in accordance with the terms of the Mortgage Note and Mortgage and any modifications thereof evidencing and securing that Pledged Mortgage Loan, and the books, records, accounts and reports of the Company with respect to the Pledged Mortgage Loans and servicing contracts have will be prepared and maintained in accordance with all applicable Investor and Insurer requirements.

ARTICLE VII

NEGATIVE COVENANTS

The Company agrees that so long as the Commitment is outstanding or there remain any obligation of the Company to be paid or performed hereunder or under the Note, the Company shall not, either directly or indirectly, without the prior written consent of the Bank:

Section 7.1. Contingent Liabilities. Assume, guarantee, endorse, or otherwise become liable for the obligation of any Person, other than a subsidiary or affiliate of the Company, except by endorsement of negotiable instruments for deposit or collection in the ordinary course of business.

Section 7.2. Merger; Sale of Assets; Acquisitions; Change in Control; Change of Senior Management. Except for the securitization, sale or purchase of loans in the ordinary course of the business, liquidate, dissolve, consolidate or merge or sell, transfer or otherwise dispose of, any substantial part of its assets, which would cause the Company to not be in compliance with the financial covenants of Section 6.14, or which would otherwise cause a material adverse change in the Company's financial condition, or which would result in a material adverse change in the Company's business operations, or permit ownership beneficially or of record of the voting stock of Company which results in Thomas J. Axon having a non-controlling ownership interest of the voting stock of the Company. For purposes of this section, "control" shall have the meaning set forth in Rule 12b-2 under the Exchange Act.

Section 7.3. Loss of Eligibility. Take, or fail to take, any action that would cause the Company to lose all or any part of its status as an eligible servicer of mortgage loans, where required, which if not maintained in good standing could materially and adversely affect the Company's business, operations, assets, or financial condition or which could materially and adversely impair the ability of Company to perform its obligation hereunder, as described under Section 5.13 hereof.

Section 7.4. Special Negative Covenants Concerning Collateral. Except in the ordinary course of business of servicing the Pledged Mortgage Loans in accordance with reasonable and customary servicing practices in the industry for the same type of mortgage loans as the Pledged Mortgage Loans, Company shall not do or permit any of the following:

(i) cancel or terminate any of the Collateral Documents (in any capacity), or consent to or accept any cancellation or termination of any of such agreements, or materially amend or otherwise modify any term or condition of any of the Collateral Documents; settle or compromise any claim in respect of any Pledged Mortgage Loan or any other Collateral; or give any consent, waiver or approval under any such agreement, or waive any default under or breach of any of the Collateral Documents or take any other action under any such agreement not required by the terms thereof, unless (in each case) Bank shall have consented thereto.

(ii) Except as permitted in this Agreement, sell, assign, transfer or otherwise dispose of, or grant any option with respect to the Collateral or any interest therein; or

(iii) pledge or otherwise encumber any of the Collateral, or accept consideration other than cash in payment or liquidation of the Collateral.

ARTICLE VIII

DEFAULTS; REMEDIES

Section 8.1.Events of Default. The occurrence of any of the following conditions or events shall be in event of default (“*Event of Default*”):

(a) Failure to pay the principal of any Advance when due or required under the Note or this Agreement, whether at stated due date or stated maturity date, or by acceleration, or otherwise; or failure to pay any installment of interest on any Advance or any other amount due under this Agreement when due and any such failure shall continue unremedied for fifteen days; or

(b) Failure of the Company to pay, or any default in the payment of any principal or interest on, any other indebtedness or in the payment of any contingent obligation which are in the aggregate amount of One Hundred Thousand Dollars (\$100,000.00); or breach or default with respect to any other material term of any other indebtedness or of any loan agreement, note, mortgage, security agreement, indenture or other agreement relating thereto, if the effect of such failure, default or breach is to cause, or to permit the holder or holders thereof (or a trustee on behalf of such holder or holders) to cause, indebtedness of the Company or its Subsidiaries in the aggregate amount of One Hundred Thousand Dollars (\$100,000.00) or more to become or be declared due prior to its stated maturity; or

(c) Failure of the Company to perform or comply with any term or condition applicable to it contained in Sections 6.1 through 6.16 inclusive, or 7.1 through 7.5, inclusive, of this Agreement; or

(d) If any of the Company’s representations or warranties made herein or in any statement or certificate at any time given by the Company in writing pursuant hereto or in connection herewith shall be false in any material respect on the date as of which made; or

(e) If, the Company shall default in the observance or performance of, or compliance with, any term contained in this Agreement other than those referred to above in subsections 8.1(a), (b), (c) or (d), and such default shall not have been remedied or waived within thirty (30) days after receipt of notice from the Bank of such default; or

(f) (i) A court having jurisdiction shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed; or (ii) any other similar relief shall be granted under any applicable federal or state law; or a decree or order of a court having jurisdiction for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Company, or over all or a substantial part of their respective properties, shall have been entered; or the involuntary appointment of an interim receiver, trustee or other custodian of the Company for all or a substantial part of its respective property; or the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of the Company, and the continuance of any such events in this clause (ii) for sixty (60) days unless dismissed, bonded off or discharged; or

(g) If the Company shall have an order for relief entered with respect to it or commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion to an involuntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; the making by the Company of any assignment for the benefit of creditors; or the inability or failure of the Company, or the admission by the Company in writing of its inability to pay its debts as such debts become due; or

(h) If any money judgment, writ or warrant of attachment, or similar process involving in any case an amount in excess of One Hundred Thousand Dollars (\$100,000.00) shall be entered or filed against the Company or any of its assets and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

(i) If any order, judgment or decree shall be entered against the Company decreeing the dissolution, liquidation or split up of the Company and such order shall remain undischarged or unstayed for a period in excess of sixty (60) days; or

(j) If the Company, other than in good faith, shall purport to disavow its obligations hereunder or shall contest the validity or enforceability hereof; or the Bank's security interest in any material portion of the Collateral shall become unenforceable or otherwise impaired; or

(k) If the Company shall have been subject to an enforcement action by any federal regulatory agency which may reasonably be expected to result in any material and adverse change in the business, operations, assets, licenses, qualifications or financial condition of the Company;

Section 8.2. Remedies. (a) Upon the occurrence of any Event of Default described in Section 8.1(f) or (g) the unpaid principal amount of and accrued interest on the Note shall automatically become due and payable, without presentment, demand or other requirements of any kind, all of which are hereby expressly waived by the Company, and the obligation of the Bank to make Advances shall thereupon terminate.

(b) Upon the occurrence of any Event of Default (other than those described in Section 8.1(f) or (g)), the Bank may, by written notice to the Company declare all or any portion of the Advances to be due and payable whereupon the same shall forthwith become due and payable, together with all accrued interest thereon, and the obligation of the Bank to make Advances shall thereupon terminate.

(c) Upon the occurrence of any Event of Default, the Bank may also do any one or more or all of the following:

(1) Foreclose upon or otherwise enforce its security interest in and Lien on all of the Collateral or on any portion thereof to secure all payments and performance of obligations owed by the Company under this Agreement.

(2) Notify all obligors of Collateral or on any portion thereof that the Collateral has been assigned to the Bank and that all payments thereon are to be made directly to the Bank or such other party as may be designated by the Bank; settle, compromise, or release, in whole or in part, any amounts owing on the Collateral, any such obligor or Investor or any portion of the Collateral, on terms acceptable to the Bank; enforce payment and prosecute any action or proceeding with respect to any and all Collateral; and where any such Collateral is in default, foreclose on and enforce security interests in, such Collateral by any available judicial procedure or, if permitted by applicable law, without judicial process and sell property acquired as a result of any such foreclosure.

(3) Act, or contract with a qualified third party to act, as servicer of all or any item of Collateral requiring servicing and perform all obligations required in connection with Purchase Commitments, such third party's fees to be paid by the Company.

(4) Exercise all rights and remedies of a secured creditor under the Uniform Commercial Code of the State of New York or the state in which the Collateral is located, including but not limited to selling the collateral at public or private sale. The Bank shall give the Company not less than sixty (60) days' written notice of any such public sale or of the date after which private sale may be held. The Company agrees that sixty (60) days' notice shall be reasonable notice. At any such sale the Collateral may be sold as an entirety or in separate parts, as the Bank may determine, but any such sale shall be conducted in a commercially reasonable manner. The Bank may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Bank until the selling price is paid by the purchaser thereof, but the Bank shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice. The Bank may, however, instead of exercising the power of sale herein conferred upon it, proceed by a suit or suits at law or in equity to collect all amounts due upon all or any portion of the Collateral or to foreclose the pledge and sell all or any portion of the Collateral under a judgment or decree of a court or courts of competent jurisdiction, or both.

(5) Proceed against the Company on the Note.

(6) Pursue any rights and/or remedies available at law or in equity against the Company.

(d) The Bank shall not be required to take any steps necessary to preserve any rights of the Company against holders of mortgages prior in lien to the Lien of any Mortgage included in the Collateral or to preserve rights against prior parties.

(e) The Bank may, but shall not be obligated to, advance any sums or do any act or thing necessary to uphold and enforce the Lien and priority of, or the security intended to be afforded by, any Mortgage included in the Collateral, including, without limitation, payment of delinquent taxes or assessments and insurance premiums. All advances, charges, costs and expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Bank in exercising any right, power or remedy conferred by this Agreement, or in the enforcement hereof, shall be paid by the Company, shall be secured by the Collateral, and until paid, shall bear interest from the date of expenditure at the rate of interest specified herein and/or in the Note.

(f) No failure on the part of the Bank to exercise, and no delay in exercising, any right, power or remedy provided hereunder, at law or in equity shall operate as a waiver thereof; nor shall any single or partial exercise by the Bank of any right, power or remedy provided hereunder, at law or in equity preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided at law or in equity.

Section 8.3. Application of Proceeds. Unless otherwise required by applicable law, the proceeds of any sale or other enforcement of the Bank's security interest in all or any part of the Collateral may be applied by the Bank in such order of priority as the Bank may determine at its sole discretion, including, without limitation, the following:

(a) To the payment of the costs and expenses of such sale or enforcement, including reasonable compensation to the Bank's agents and counsel, and all customary and usual expenses, liabilities and advances made or incurred by or on behalf of the Bank in connection therewith;

(b) To the payment of any other amounts due under the Note or this Agreement (whether for principal or interest or otherwise), in such order and manner as the Bank elects; and

(c) To the payment to the Company, or to its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

If the Proceeds of any such sale are insufficient to cover the costs and expenses of such sale, as aforesaid, and the payment in full of the Note and all other amounts due hereunder, the Company shall remain liable for any deficiency.

All references to costs and expenses of Bank (including attorney fees) to be reimbursed to Bank by Borrower shall mean Bank's reasonable costs, and expenses (including reasonable attorney fees).

Section 8.4. Bank Appointed Attorney-in-Fact. The Bank is hereby appointed the attorney-in-fact of the Company, after the occurrence and during the continuance of an Event of Default hereunder, with full power of substitution, for the purpose of carrying out the provisions hereof, and taking any action and executing any instruments which the Bank may deem necessary or advisable to accomplish the purposes hereof or thereof, after the occurrence and during the continuance of an Event of Default hereunder, which appointment as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Bank shall have the right and power to give notices of its security interest in the Collateral to any Person, either in the name of the Company, or in its own name, after the occurrence and during the continuance of an Event of Default hereunder to endorse all Pledged Mortgage Loans payable to the order of the Company or, after the occurrence and during the continuance of an Event of Default hereunder, to receive, endorse and collect all checks made payable to the order of the Company, representing any payment on account of the principal of or interest on, or the proceeds of sale of, any of the Pledged Mortgage Loans and to give full discharge for the same and execute any and all instruments in writing whatever kind and nature, if they be necessary, and be necessary and deemed proper by Bank to effectively assure its appropriate lien position in the Collateral and in the Pledged Mortgage Loans.

Section 8.5. Right of Set-off. If the Company shall default in the payment of the Note, any interest accrued thereon, or any other sums which may become payable hereunder when due, or in the performance of any of its other obligations or liabilities under this Agreement, the Bank, shall have the right, at any time and from time to time, without notice, to set-off and to appropriate or apply any and all deposits of money or property or any other indebtedness at any time held or owing by the Bank or a parent company, affiliate, or subsidiary to or for the credit of the account of the Company against and on account of the obligations and liabilities of the Company under the Note and this Agreement, irrespective of whether or not the Bank shall have made any demand hereunder and whether or not said obligations and liabilities shall have matured, *provided, however*, that the aforesaid right of set-off shall not apply to any deposits of escrow monies or other funds being held on behalf of the mortgagors under Mortgage Loans or other third parties, and Bank shall promptly notify Company subsequent to Bank exercising any such set-off.

ARTICLE IX

REIMBURSEMENT OF EXPENSES; INDEMNITY

The Company shall:

Section 9.1. Cost of Enforcement. Pay all reasonable costs and expenses of the Bank, including reasonable attorney's fees, in connection with the enforcement of this Agreement, the Note, and other documents and instruments related hereto.

Section 9.2. Payments of Taxes. Pay, and hold the Bank and any holder of the Note harmless from and against, any, and all, present and future stamp, documentary and other similar taxes with respect to the foregoing matters and save the Bank and the holder or holders of the Note harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes.

Section 9.3. Indemnification. Indemnify, pay and hold harmless the Bank and any of its officers, directors, employees or agents and any subsequent holder of the Note from and against any and all liabilities, obligations, losses, damages, penalties, judgments, suits, costs, expenses and disbursements of any kind whatsoever (the "*Indemnified Liabilities*") (excluding any such Indemnified Liabilities resulting from failure by the Bank to perform any of its obligations under this Agreement, the Note, or any other document referred to herein as established in a suit between the Company and the Bank which may be the same suit in which indemnification is being sought hereunder by the Bank and any liabilities arising from the Bank's gross negligence or willful misconduct) which may be imposed upon, incurred by or asserted against the Bank or such holder in any way relating to or arising out of this Agreement, the Note, or any other document referred to herein or any of the transactions contemplated hereby or thereby to the extent that any such Indemnified Liabilities result (directly or indirectly) from (i) the inaccuracy or incompleteness of any representation or warranty made by the Company in this Agreement or any schedule, statement, Exhibit or certificate furnished by the company pursuant to this Agreement or (ii) the failure by the Company to observe or perform any term or provision of this Agreement or of any agreement executed in connection herewith, including without limitation any claims made, or any actions, suits or proceedings commenced or threatened, by or on behalf of any creditor (excluding the Bank and the holder or holders of the Note), security holder, shareholder, mortgagor, customer (including, without limitation, any person or entity having any dealings of any kind with the Company), trustee, director, officer, employee and/or agent of the Company acting in such capacity, the Company or any governmental regulatory body or authority.

ARTICLE X

DELIVERIES OF COLLATERAL DOCUMENTS

Section 10.1. Delivery of Collateral Documents. The Bank reserves the right to exclusively deliver Pledged Mortgage Loans to an Investor under a Purchase Commitment with respect thereto for its examination and purchase, against a bailee letter substantially in the form attached hereto as **Exhibit D**. In addition, the Bank may deliver any document relating to the Collateral to the Company for correction or completion against a properly executed trust receipt in the form approved by the Bank with instructions to the Company to either return the corrected document to the Bank within ten (10) calendar days after such delivery or redeem the Mortgage Loan from pledge. In the case of deliveries of Pledged Mortgage Loans by the Bank, the Company shall deliver to the Bank a letter, to accompany the delivery, confirming the security interest of the Bank and designating the Bank as payee under any Purchase Commitment.

Section 10.2. Reserved.

ARTICLE XI

MISCELLANEOUS

Section 11.1. Relationship of Parties. The relationship between Bank and the Company is limited to that of creditor/secured party, on the one hand, and borrower, on the other hand. The provisions herein for compliance with financial covenants and delivery of financial statements, are intended solely for the benefit of Bank to protect its interests as lender in assuring performance of the obligations hereunder, and nothing contained in this Agreement shall be construed as permitting or obligating Bank to act as a financial or business advisor or consultant to the Company, as permitting or obligating the Bank to control the Company or to conduct the Company's operations, as creating any joint venture, agency, fiduciary, trustee, or other relationship between the parties other than as explicitly and specifically stated in this Agreement. The Company acknowledges that it has had the opportunity to obtain the advice of experienced counsel of its own choosing in connection with the negotiation and execution of this Agreement and to obtain the advice of such counsel with respect to all matters contained herein. The Company further acknowledges that it is experienced with respect to financial and credit matters and has made its own independent decision to execute and deliver this Agreement.

Section 11.2. Recourse. The Company acknowledges and agrees that it is fully liable for repayment of all Advances and all sums due hereunder or under the Note and for performance of all obligations contained in this Agreement.

Section 11.3. Notices. All notices, demands, consents, requests and other communications required or, permitted to be given or made hereunder (collectively, "Notices") shall, except as otherwise expressly provided hereunder, be in writing and shall be delivered in person, or mailed, first class, return receipt requested, postage prepaid, or by overnight delivery service or by facsimile or other telecommunications device addressed to the respective parties hereto at their respective addresses hereinafter set forth or, as to any such party, at such other address as may be designated by it in a Notice to the other. All Notices shall be conclusively deemed to have been properly given or made when duly delivered, in person or by facsimile or other telecommunications device, on the next business day if sent by overnight delivery service, or, if mailed, on the third Business Day after being deposited in the mails or when delivered to the telegraph company, addressed as follows:

if to the Company: Franklin Credit Management Corporation
101 Hudson Street
Jersey City, NJ 07302
Attention: Mr. Gordon Jardin
C.E.O
Facsimile No. 212.625.9830

with a copy to: Franklin Credit Management Corporation
101 Hudson Street
Jersey City, NJ 07302
Attention: Kevin Gildea
General Counsel
Facsimile No. 212.625.9830

if to the Bank: Sky Bank
110 East Main Street
Salineville, Ohio 43945
Attention: Mr. Jerry S. Sutherin
Senior Vice President
Facsimile No. 330.679.2377

with a copy to: Sky Financial Group, Inc.
221 South Church Street
Bowling Green, OH 43402
Attention: General Counsel
Facsimile No. 419.254.6345

Section 11.4. Terms Binding Upon Successors; Survival. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. All representations, warranties, covenants and agreements herein contained on the part of the Company shall survive the making of any Advance and the execution of the Note, and shall be effective so long as the Commitment is outstanding or there remains any obligation of the Company hereunder or under the Note to be paid or performed.

Section 11.5. Assignment. This Agreement may not be assigned by the Company without the written consent of Bank. This Agreement and the Note, along with the Bank's security interest in any or all of the Collateral, may, at any time, be transferred or assigned, in whole or in part, by the Bank, and any such transferee or assignee thereof may enforce this Agreement, the Note and such security interest.

Section 11.6.Amendments. This Agreement may not be modified or amended or waived unless such modification, waiver or amendment is in writing signed by the parties.

Section 11.7.No Waiver; Remedies Cumulative. No failure or delay on the part of the Company or the Bank or any holder of the Note in exercising any right, power or privilege hereunder and no course of dealing between the Company and the Bank or the holder of the Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under the Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Company or the Bank or the holder of the Note would otherwise have. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Bank or the holder of the Note to any other or further action in any circumstances without notice or demand.

Section 11.8.Invalidity. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had not been included.

Section 11.9.Participations. The Bank may from time to time sell or otherwise grant participations in the Note, and the holder of any such participation, if the participation agreement so provides, (i) shall, with respect to its participation, be entitled to all of the rights of the Bank and (ii) may exercise any and all rights of setoff or banker's lien with respect thereto, in each case as fully as though the Company were directly indebted to the holder of such participation in the amount of such participation; *provided, however,* that the Company shall not be required to send or deliver to any of the participants other than the Bank any of the materials or notices required to be sent or delivered by it under the terms of this Agreement, nor shall it have to act except in compliance with the instructions of the Bank.

Section 11.10.Integration. This Agreement, together with the Note, and other documents executed pursuant to the terms hereof, constitute the entire agreement between the parties hereto, with respect to the subject matter hereof.

Section 11.11.Additional Instruments, etc. The Company shall execute and deliver such further instruments and shall do and perform all matters and things necessary or expedient to be done or observed for the purpose of effectively creating, maintaining and preserving the security and benefits intended to be afforded by this Agreement.

Section 11.12.Governing Law. This Agreement and the rights and obligations of the parties hereunder and under the Note shall be construed in accordance with and governed by the laws of the State of Ohio.

Section 11.13. Company Information. The Company hereby authorizes the Bank to provide any Affiliate of the Bank with information regarding the Company, including copies of documents, financial statements, corporate records and reports, obtained by the Bank from the Company or any other entity during the course of the negotiation or administration of this Agreement.

Section 11.14. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterpart signature pages, each of which when so executed and delivered shall be an original, but all of which together constitute one and the same instrument.

Section 11.15. Privacy and Security. Bank acknowledges that the Company and its affiliates are required to safeguard nonpublic personal information of their respective customers. This duty to safeguard personal information requires the Company and its affiliates to ensure that third parties who may observe or obtain nonpublic personal information also safeguard this information to the same extent. Accordingly, Bank agrees and represents and warrants the Bank shall, at all times, comply with the requirements of the Gramm-Leach-Bliley Act, Pub. L. 106-102, as amended, and its implementing regulations, with respect to maintaining the confidentiality and security of nonpublic personal information of the Company's customers in connection with the Bank's rights under this Agreement. Bank acknowledges that all documents and information furnished to or obtained by Bank, whether in written or verbal form, relating to the personal, non-public information of the Company's customers (collectively, the "Confidential Information"), constitute valuable assets of, and are proprietary to, the Company and its affiliates. Accordingly, Bank agrees not to disclose (whether directly or indirectly) or use any Confidential Information except as required to carry out its duties under the Agreement or as required by law. Third party disclosures made in the ordinary course of Bank's business are permitted, provided they are solely in furtherance of Bank's duties under this Agreement and are made to a party bound by privacy and security provisions consistent herewith. Bank agrees to establish and maintain procedures reasonably designed to assure the security of all Confidential Information. This Privacy and Security Section 11.15 shall survive termination of the Agreement.

[This space has been left blank intentionally.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

COMPANY: FRANKLIN CREDIT MANAGEMENT
CORPORATION

By _____

Printed Name:

Title:

BANK: SKY BANK

By _____

Printed Name: JERRY SUTHERIN

Title: SENIOR VICE PRESIDENT

EXHIBIT A

PROMISSORY NOTE

\$40,000,000.00

Date: August 11, 2006

FOR VALUE RECEIVED the undersigned (herein called the "Company"), hereby promises to pay to the order of Sky Bank (the "Bank" or, together with its successors and assigns, the "Holder") at Sky Bank, P.O. Box 5399 East Liverpool, Ohio 43920, or at such other place as the Holder may designate from time to time, the principal sum of Forty Million Dollars (\$40,000,000.00) or so much thereof as may be outstanding from time to time at such times and in such amounts as set forth in the Flow Warehousing Credit and Security Agreement of even date herewith, as the same may be amended from time to time, between the Company and the Bank (the "Agreement"). The unpaid principal balance of Advances shall bear interest, payable monthly, on the fifth (5th) day of each month, from the date of such Advance until paid in full, at a floating per annum rate of interest (the "*Floating Rate*") from time to time which is fifty (50) basis points less that the Index. The interest rate charged herein shall be adjusted monthly, effective on the first (1st) day of each month, based upon the Index in effect on the last Business Day of the then prior month. As used herein, the term "Index" shall mean the independent index, which is the Prime Rate as published from time to time in the Money Rates Column of *The Wall Street Journal*. If more than one such prime rate or a range of prime rates is published, the highest prime rate will be used when calculating the Index, and if *The Wall Street Journal* ceases to publish the Prime Rate, Lender and Company will mutually and reasonably agree upon an independent, replacement source for determining the Prime Rate when calculating the Index. All interest and transaction fees will be deducted from the proceeds remitted from an Investor, if any, to the Bank on each individual Advance. In the event the total sum of the Advance plus such fees and interest exceeds the remittance amount received from the Investor, the deficit amount shall be deemed in arrears and will be payable to the Bank on the fifth day of each month. All payments hereunder shall be made in lawful money of the United States and in immediately available funds.

Interest will be billed monthly and will be due within ten (10) days of the issuance of the relevant monthly billing statement.

Interest shall be computed on the basis of a 360-day year and applied to the actual number of days in each interest calculation period.

If any payment required to be made by the Company hereunder becomes due and payable on a Saturday, Sunday or holiday, the due date thereof shall be extended to the next succeeding business day and interest hereon shall be payable at the then applicable rate during such extension. The holder of this Note is hereby authorized to record the date and amount of each payment of principal and interest, and applicable interest rates and other information with respect thereto, on the schedules annexed to and constituting a part of this Note and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided however, that the failure to make a notation or the inaccuracy of any notation shall not limit or otherwise affect the obligations of the Company hereunder.

Unless otherwise required by law, payments may be applied by Bank to the interest due hereunder at the applicable rate set forth above, the principal of this Note, and to any other amounts which may be due pursuant to any of the terms, provisions, conditions, or covenants of this Note or of the Agreement in such order as Bank may determine from time to time at its sole discretion.

This Note is the note referred to in the Agreement and has been issued under, is subject to the terms, conditions and covenants thereof, including without limitation the requirement for monthly interest payments and mandatory payments of principal as described in the Agreement, and is entitled to the benefits thereof, provided, however, reference to the Agreement does not affect or impair the absolute and unconditional obligation of the Company to pay the principal and interest of this Note when due. Capitalized terms used herein without definition shall have the meanings given them in said Agreement.

Upon failure of the Company to pay any payment due hereunder in full when due or upon the occurrence of any Event of Default specified in the Agreement, the entire unpaid principal balance hereof plus accrued and unpaid interest thereon shall, at the option of the Bank, mature and become immediately due and payable all in accordance with the terms of the Agreement.

This Note may be prepaid in whole or in part at any time without premium or penalty.

The Company hereby agrees to pay, in addition to all of the sums of money due hereunder, all costs of collection and reasonable attorneys' fees; whether suit be brought or not, and all other amounts due under the Agreement, if this Note is not paid in full when due, whether at the stated maturity or by acceleration. No provision hereof may be waived or modified orally, but all such waivers, or modifications shall be in writing.

The Company hereby waives presentment-for payment, demand, protest, notice of protest and notice of dishonor.

This Note shall be construed and enforced in accordance with the laws of the State of Ohio, without reference to its principles of conflicts of law. For any action or dispute arising under this Note or in connection herewith, the Company hereby irrevocably submits to, consents to, and waives any objection to, the jurisdiction of the courts of the State of Ohio or the United States Courts for the Northern District of Ohio.

In the event that any one or more of the provisions of this Note shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part, or in any respect, or in the event that any one or more of the provisions of this Note shall operate, or would prospectively operate, to invalidate this Note, then, and in any such event, such provision or provisions only shall be deemed to be null and void and of no force or effect and shall not affect any other provision of this Note, and the remaining provisions of this Note shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

IN WITNESS WHEREOF, the Company has executed this Note to be effective as of the day and year first above written.

FRANKLIN CREDIT MANAGEMENT CORPORATION

By: _____

Printed Name:

Title:

EXHIBIT B

ADVANCE REQUEST FORM

See attached form.

EXHIBIT C

PROCEDURES FOR RECEIPT AND REVIEW OF DOCUMENTS FOR WAREHOUSE RESIDENTIAL MORTGAGE LOANS

As the portfolios of loans are submitted to Franklin Credit Management Corporation for preliminary due diligence and indicative pricing, the following steps must occur:

- 1) A monthly pipeline or projections report must be submitted to Sky Bank by the 25th of each month detailing the anticipated fundings for the following month. Inclusive of this report shall be the number of anticipated proposals, seller, loan files within each proposal, expected funding date, conditional bid price and loan characteristics.
- 2) At least three (3) Business days prior to anticipated funding, Franklin must provide to Sky, a due diligence review package consisting of a loan proposal, loan level detail, loan level detail and pricing updated FICO scores, independent BPO reviews as dictated by Franklin Policies and Procedures, loan-level due diligence sheets and other supplemental information as deemed necessary by Sky bank.
- 3) Once all information is compiled and submitted, Sky Bank shall be responsible for review according to internal policy guidelines. Funding approval shall be in the sole discretion of Sky Bank. Assuming approval, funding will take place within three (3) Business days of receipt of the entire due diligence package as described above.

Upon the request of the Bank, for any Mortgage Loan for which the Bank has a reasonable concern regarding the underwriting thereof, the Company will provide, and Sky Bank or Custodian shall receive, the following pre-closing documents in a time deemed satisfactory by both the Bank and Company:

Approved Loan Proposal

- Certified copy of the Mortgage
 - Faxed copy of the executed note
 - Preliminary title commitment, where applicable
 - Application - 1003
 - Loan Summary - 1008
 - Credit Report along with three corresponding FICO scores
 - Verified collateral insurance
 - Appraisal
-

- Flood Determination
- Flood insurance (if necessary)
- VOE, where applicable
- VOM, where applicable
- VOD, where applicable
- Assignment of Mortgage to Company and all intervening assignments, where applicable

With respect to each Pledged Mortgage Loan, the Collateral Documents shall include each of the following items, which shall be available for inspection by the Bank and which shall be delivered to the Bank or the Custodian within three (3) business days of funding:

(a) a lost note affidavit in a form acceptable to the Bank; or the original Mortgage Note bearing all intervening endorsements evidencing a complete chain of assignment from the originator to the last endorsee, endorsed "Pay to the order of _____, without recourse" and signed in the name of the last endorsee by an authorized officer. To the extent that there is no room on the face of the Mortgage Notes for endorsements, the endorsement may be contained on an allonge, if state law so allows and the Custodian is so advised by the Company that state law so allows;

(b) the original of any guarantee executed in connection with the Mortgage Note;

(c) the original Mortgage with evidence of recording thereon. If in connection with any Mortgage Loan, the Company cannot deliver or cause to be delivered the original Mortgage with evidence of recording thereon on or prior to the Closing Date because of a delay caused by the public recording office where such Mortgage has been delivered for recordation or because such Mortgage has been lost or because such public recording office retains the original recorded Mortgage, the Company shall deliver or cause to be delivered to the Custodian, a photocopy of such Mortgage, together with (i) in the case of a Mortgage where a public recording office retains the original recorded Mortgage or in the case where a Mortgage is lost after recordation in a public recording office, a copy of such Mortgage certified by such public recording office to be a true and complete copy of the original recorded Mortgage;

(d) the originals or certified copy of all assumption, modification, consolidation or extension agreements, if any, with evidence of recording thereon;

(e) the original assignment of Mortgage for each Mortgage Loan, in form and substance acceptable for recording. The assignment of Mortgage shall be delivered in blank;

(f) the originals of all intervening assignments of mortgage, evidencing a complete chain of assignment from the originator to the last endorsee, with evidence of recording thereon, or if any such intervening assignment has not been returned from the applicable recording office or has been lost or if such public recording office retains the original recorded assignments of mortgage, the Company shall deliver or cause to be delivered to the Custodian, a photocopy of such intervening assignment. In the case of an intervening assignment where a public recording office retains the original recorded intervening assignment or in the case where an intervening assignment is lost after recordation in a public recording office, a copy of such intervening assignment certified by such public recording office to be a true and complete copy of the original recorded intervening assignment shall be included;

(g) (i) for first mortgage financing, the original mortgagee policy of title insurance or, for up to a reasonable period of time following the recordation of the mortgage, a marked up title commitment for a mortgagee title insurance policy, and (ii) for second mortgage financing, one of the following: (w) an original mortgagee title insurance policy or marked up commitment, as described in clause (i) above, (x) a mortgagee title insurance policy insuring the first mortgage but not the second mortgage, but showing the second mortgage of record, (y) a title commitment showing no matters not satisfactory to the Bank, or (z) other evidence of the title satisfactory to the Bank in its discretion. In a situation where a mortgagee title insurance policy is required but unavailable, a copy of the policy certified as true and complete by the title insurance company shall suffice.

(h) security agreement, chattel mortgage or equivalent document executed in connection with the Mortgage, if any; and

(i) where applicable, the Mortgage Identification Number (“MIN”) for each Mortgage Loan registered on the MERS® System to track the transfer of ownership and/or servicing rights to the Company

From time to time, the Company shall cause to be forwarded to the Custodian additional original documents, additional documents evidencing an assumption, modification, consolidation or extension of a Mortgage Loan. All such mortgage documents held by the Custodian as to each Mortgage Loan shall constitute the “*Collateral Documents*”

EXHIBIT D

BAILEE LETTER

_____, 2006

NOTICE OF BAILMENT

Re: Franklin Credit Management Corporation Flow Transaction Loans-

Ladies and Gentlemen:

You are hereby notified that the enclosed original promissory notes with respect to the referenced loan together with certain other documents comprising the related file with respect to that loan (the "Mortgage Documents") being hereby delivered to you herewith are to be held by you as agent of Custodian and subject to the terms of the Bailee Letter, as defined herein.

Any funds wired by Takeout Investor in accordance with the Bailee Letter shall be transmitted in immediately available funds to:

Sky Bank
ABA: 041201936
Account #: 3000 1015040
Account Name: Wire Clearing-Specialty Lending Group- Attn Elaine Ramsey

Any Mortgage Documents (or portion thereof) being returned in accordance with the Bailee Letter shall be sent to the Custodian by overnight courier to: Sky Bank; 110 East Main Street, Salineville, Ohio 43945-0110, no later than thirty (30) calendar days after the date hereof.

If you have any further questions, please feel free to call Elaine Ramsey at 330-679-3862 .

Sincerely,

Jerry S. Sutherin
Vice President, Specialty Lending Group
Sky Bank

EXHIBIT E

POWER OF ATTORNEY

Franklin Credit Management Corporation ("Company") hereby appoints Sky Bank ("Bank") as its true and lawful attorney-in-fact to act in the name, place and stead of Company for the purposes set forth below. This Power of Attorney is given pursuant to a certain Warehouse Credit and Security Agreement (Amended and Restated) by and between the Company and Bank dated August 11, 2006, (the "Agreement") to which reference is made for the definition of all capitalized terms herein.

Now, therefore, Company does hereby constitute and appoint Bank the true and lawful attorney-in-fact of Company in Company's name, place and stead with respect to each Mortgage Loan purchased pursuant to the Agreement for the following, and only the following, purposes:

1. To execute, acknowledge, seal and deliver deed of trust/mortgage note endorsements, assignments of deed of trust/mortgage and other recorded documents, satisfactions/releases/reconveyances of deeds of trust/mortgages, tax authority notifications and declaration, deeds, bills of sale, and other instruments of sale, conveyance and transfer, appropriately completed, with all ordinary or necessary endorsements, acknowledgments, affidavits, and supporting documents as may be necessary and proper to effect its execution, delivery, conveyance, and recordation of filing.
2. To execute and deliver affidavits of debt, substitutions of trustee, substitutions of counsel, non-military affidavits, notices of recession, foreclosure deeds, transfer tax affidavit, affidavits of merit, verifications of complaint, notices to quit, bankruptcy declarations for the purpose of filing motions to lift stays and other documents or notice filings on behalf of Company in connection with foreclosure, bankruptcy and eviction actions.
3. To endorse and/or assign any borrower or mortgagor's check or negotiable instrument received by Bank as a payment under a Mortgage Loan.

Company intends that this Power of Attorney be coupled with an interest and is not revocable.

Company further grants to its attorney-in-fact full authority to act in any manner both proper and necessary to exercise the foregoing powers, and ratifies every act that Bank may lawfully perform in exercising those powers by virtue hereof.

Company further grants to its attorney-in-fact the power of substitution and revocation of another party for the purpose and only the purpose of endorsing or assigning notes or security instruments in Company's name, and Company hereby ratifies and confirms all that the attorney-in-fact, or substitute or substitutes, shall lawfully do or cause to be done by virtue of this power of attorney and its rights and powers.

Bank shall indemnify, defend and hold harmless Company, its successors and assigns, from and against any and all losses, costs, expenses (including, without limitation, reasonable attorneys' fees), damages, liabilities, demand or claims of any kind whatsoever ("Claims") arising out of, related to, or in connection with (i) any act taken by Bank pursuant to this Limited Power of Attorney, which act results in a claim solely by virtue of the unlawful use of this Limited Power of Attorney (and not as a result of a claim related to the underlying instrument with respect to which this Limited Power of Attorney has been used), or (ii) any use or misuse of this Limited Power of Attorney in any manner or by any person not expressly authorized hereby.

IN WITNESS WHEREOF, Company has executed this Power of Attorney this 11th day of August 2006.

Company: Franklin Credit Management Corporation

By: _____

Title: _____

STATE OF)
):ss.
COUNTY OF)

On this ____ day of _____, ____, before me, a notary public, the undersigned officer, personally appeared _____ who acknowledged himself/herself to be the _____ of _____, a _____ corporation, and that he/she as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself/herself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Notary Public

My commission expires on _____.

EXHIBIT F

LOCK BOX TERMS

A. **Lockbox Service.** The lockbox service (the “Service”) will operate through a U.S. Postal Service box in the Company’s name (the “Lockbox”) and Company’s demand deposit accounts at Bank (the “Accounts”) which are designated herein below, and which Accounts are subject to Bank’s standard deposit account agreements. Company authorizes Bank and its employees, representatives or authorized agents to (i) pick up and transport from the Post Office mail addressed to the Lockbox, and (ii) open such mail and process its contents according to the Lockbox processing procedures which will be agreed to by Bank and the Company.

B. **Company’s Obligations.** Company agrees to provide Bank, its employees, representatives or authorized agents with unrestricted and exclusive access to the Lockbox. Company agrees to follow the recommendations and specifications outlined in the Processing Procedures relating, without limitation, to document specifications for the remittance documents to be submitted to the Lockbox. Insofar as the performance of Services under this Agreement by Bank requires data, documents, information or materials of any nature to be furnished by Company, or for Bank personnel, Company hereby agrees to furnish all data, documents, information, and materials and to perform all such acts and to make appropriate personnel, records and facilities available to Bank, within such time and in such form or manner as may reasonably be necessary in order to enable Bank to perform the required Services promptly and in a workmanlike manner.

C. **Deposits.** Bank will deposit all items which comply with the processing procedures agreed to by Bank and Customer for credit to Company’s Account with Bank. Company authorizes Bank to endorse checks and other payment instruments received (the “Remittances”) and to deposit such instruments in the Accounts. If any payee is a legal entity other than Company, Company represents and warrants to Bank that Company has the proper authorization from such payee to have such check endorsed for deposit, and deposited into the Account, and Company agrees to indemnify Bank against any losses, liabilities, damages, claims, demands, obligations, actions, suits, judgments, penalties, costs or expenses, including, but not limited to, attorneys’ fees (collectively “Losses and Liabilities”), suffered or incurred by Bank as a result of, or in connection with, Company’s failure to have such authorization. Further, the Bank may accept checks and other instruments for deposit to the Account without endorsement. Company represents and warrants to Bank that the endorsements of all items received through this Service are proper and valid and that Company has a right to receive such items for deposit to the Account. Company agrees to notify Bank no later than ten (10) calendar days after Company receives an advice of deposit, if there is any error in such advice, and no later than thirty (30) calendar days after Company receives a bank statement on the Account, if such statement contains an error or fails to show a deposit that should have been made during the time period covered by such statement.

D. **Account Documentation.** Company understands that this Agreement covers Lockbox Services as described herein and does not cover the handling of the Accounts and the processing of checks drawn on the Account or the availability of the deposits made to the Accounts. The Accounts will be subject to, and Bank’s operation of the Accounts will be in accordance with, the terms and provisions of Bank’s deposit account agreements and the account rules and regulations governing the Accounts (collectively the “Account Agreements”), copies of which Company acknowledges having received, and shall be subject to the Master Credit Agreement to which this Lock Box Terms agreement is attached.

E. **Reasonable Care.** As to property of Company in Bank's possession Bank shall be liable only for the exercise of reasonable care in safekeeping the same and restricting access to authorized persons of information relating to Company's business or the business of any of Company's customers which may be received in the course of rendering the Service hereunder.

F. **Mail Collection.** Bank shall collect the mail from the Lockbox in accordance with Bank's post office schedule, as such schedule may change from time to time.

G. Limitation of Liability, Indemnity. The Bank will only be liable for damages arising from the Bank's intentional misconduct or negligence in the performance of this Service. The Bank will not be responsible for any loss, delay, costs or liability which arise, directly or indirectly, in whole or part, from, Company's actions or omissions, negligence or breach of any agreement with Bank; any ambiguity, inaccuracy or omission in any instruction or information provided to Bank; accidents, strikes, labor disputes, civil unrest, fire, flood, water damage (e.g., from fire suppression systems), or acts of God; or the actions of others or causes that are beyond Bank's reasonable control. The Bank will not be responsible under any circumstances for special, indirect, or consequential damages, which the Company incurs as a result of the Bank's actions or omissions, even if the Bank is aware of the possibility for such damage. Any claim, action or proceeding by the Company to enforce the terms of this Agreement or to recover for any Service-related loss or for any losses or liabilities, must be commenced within one year from the date that the event giving rise to the claim, action, or proceeding first occurs. The Company agrees to cooperate with the Bank in any loss recovery effort the Bank undertakes to reduce any loss or liability that arises in connection with the Bank's Services. Company agrees to indemnify, defend, hold Bank harmless from and against any claim, damage, loss, liability and cost (including, without limitation, reasonable attorneys' fees) of any kind whatsoever which results directly or indirectly, in whole or in part from: (a) Bank's actions or omissions, if they are in accordance with the Company's instructions or the terms of this Agreement; or (b) the actions or omissions of the Company, its agents or employees. This clause shall survive the termination of this Agreement.

Account Information:

Depository Account Number: 0401740085

Other:

Any correspondence between the Company and the Bank concerning normal operations of the Payments Processing and Control service shall be addressed as follows:

Account Name: FCMC General Depository Account

Address: PMT Processing and Control Service, C/O Elaine Ramsey or Barb Webb
110 E Main Street
Salineville, OH 43945

RATE CAP TRANSACTION AGREEMENT

This Agreement is made as of August 29, 2006 (the "Trade Date"), by and among LASALLE BANK NATIONAL ASSOCIATION (the "Floating Rate Payer") and FRANKLIN CREDIT MANAGEMENT CORPORATION (the "Fixed Rate Payer").

WHEREAS, the Fixed Rate Payer desires to enter into an arrangement for the purpose of limiting its interest expense on certain existing floating rate liabilities; and

WHEREAS, the Floating Rate Payer desires to enter into such an arrangement with the Fixed Rate Payer;

NOW, THEREFORE, the parties hereto agree as follows:

1. Payment of Fixed Amount. The Fixed Rate Payer agrees to pay to the Floating Rate Payer a Fixed Amount USD 101,000.00 on or before August 31, 2006 (the "Fixed Rate Payer Payment Date"), in consideration of the Floating Rate Payer agreeing to make a payment to the Fixed Rate Payer for each Calculation Period (as defined below) during which the Floating Rate (as defined below) exceeds the Cap Rate (as defined below).

2. Payment of Floating Amounts. The Floating Rate Payer agrees to make a payment of the Floating Amount (as defined below) on each Floating Rate Payer Payment Date (as defined below) in immediately available funds at such location as the Fixed Rate Payer shall direct. For each Floating Rate Payer Payment Date, the Floating Rate Payer shall deliver to the Fixed Rate Payer a notice containing a computation of the Floating Amount payable.

3. Definitions. The definitions and provisions contained in the 2000 ISDA Definitions (as published by the International Swap Dealers Association, Inc.) are incorporated by reference into this Agreement. In the event of any inconsistency between those definitions and provisions and the provisions of this Agreement, the provisions of this Agreement shall govern.

(a) "Business Day" shall mean a day on which banks are open in New York for the transaction of general commercial banking business and on which dealings may be carried on in the London interbank eurodollar market.

(b) "Calculation Agent" shall mean the Floating Rate Payer.

(c) "Calculation Period" shall mean each period from, and including, one Floating Rate Payer Payment Date to, but excluding, the next following Floating Rate Payer Payment Date, except that (i) the initial Calculation Period will commence on, and include, the Effective Date, and (ii) the final Calculation Period will end on, but exclude, the Termination Date.

(d) "Cap Rate" shall mean 5.75%.

(e) "Designated Maturity" shall mean 1 Month

(f) "USD" and the sign "\$" mean lawful currency of the United States of America.

(g) "Effective Date" shall mean August 31, 2006.

(h) "Floating Amount" with respect to any Calculation Period shall mean an amount equal to (i) the amount by which the interest earned on the Notional Amount for the Calculation Period at the Floating Rate would exceed (ii) the amount of interest which would have been earned on the Notional Amount for the Calculation Period at the Cap Rate, all said calculations being based on a Floating Rate Day Count Fraction of Actual/360. (If the amount calculated in clause (i) shall be less than the amount calculated under clause (ii), the Floating Amount for said Calculation Period shall be zero).

(i) "Floating Rate" means (i) with respect to the initial Calculation Period, the rate determined for the Floating Rate Option two (2) London Banking Days prior to the Effective Date for value on the Effective Date; and (ii) with respect to any subsequent Calculation Period, the rate determined with respect to such period for the Floating Rate Option.

(j) "Floating Rate Option" shall mean USD-LIBOR-BBA

(k) "Floating Rate Payer Payment Date" shall mean the last day of each month, commencing on September 30, 2006 and ending on the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.

(l) "Notional Amount" shall mean USD 300,000,000.00.

(m) "Reset Date" shall mean each Floating Rate Payer Payment Date to, but not including, the Termination Date.

(n) "Termination Date" shall mean August 31, 2007.

4. Representations and Warranties - The Fixed Rate Payer. The Fixed Rate Payer hereby represents and warrants to the Floating Rate Payer that:

(a) The Fixed Rate Payer is a corporation validly existing and in good standing under the laws of the jurisdiction of its organization and such jurisdiction is a State of the United States of America.

(b) The Fixed Rate Payer has the corporate power and authority to own its property and assets and to carry on its business as currently conducted.

(c) The Fixed Rate Payer has the corporate power to execute, deliver and perform this Agreement.

(d) The execution, delivery and performance of this Agreement (i) have been duly authorized by all requisite corporate or organizational action on the part of the Fixed Rate Payer and (ii) will not (A) violate (1) any provision of law, (2) the constitutional documents of the Fixed Rate Payer, (3) any applicable order of any court or agency of government or (4) any indenture, agreement or other instrument to which the Fixed Rate Payer is a party or by which the Fixed Rate Payer or any of its property or assets is bound, (B) be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement or other instrument to which the Fixed Rate Payer is a party or by which the Fixed Rate Payer or any of its property or assets is bound or (C) result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or assets of the Fixed Rate Payer.

(e) This Agreement has been duly executed and delivered by the Fixed Rate Payer and constitutes a legal, valid and binding obligation of the Fixed Rate Payer, enforceable in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency or similar laws from time to time in effect).

(f) No action, consent or approval of, or registration or filing with, or any other action by any governmental agency, bureau, commission or court has been required in connection with the execution, delivery and performance by the Fixed Rate Payer of this Agreement, or if so required, such registration or filing has been made, such consent or approval has been given or such other appropriate action has been taken.

5. Representations and Warranties - The Floating Rate Payer. The Floating Rate Payer hereby represents and warrants to the Fixed Rate Payer that:

(a) The Floating Rate Payer is a bank organized or formed under the laws of the United States of America.

(b) The Floating Rate Payer has the corporate or organizational power and authority to own its property and assets and to carry on its business as currently conducted.

(c) The Floating Rate Payer has the corporate or organizational power to execute, deliver and perform this Agreement.

(d) The execution, delivery and performance of this Agreement (i) have been duly authorized by all requisite corporate or organizational action on the part of the Floating Rate Payer and (ii) will not (A) violate (1) any provision of law, (2) the constitutional documents of the Floating Rate Payer, (3) any applicable order of any court or agency of government or (4) any indenture, agreement or other instrument to which the Floating Rate Payer is a party or by which the Floating Rate Payer or any of its property or assets is bound, (B) be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement or other instrument to which the Floating Rate Payer is a party or by which the Floating Rate Payer or any of its property or assets is bound or (C) result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or assets of the Floating Rate Payer.

(e) This Agreement has been duly executed and delivered by the Floating Rate Payer and constitutes a legal, valid and binding obligation of the Floating Rate Payer, enforceable in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency or similar laws from time to time in effect).

(f) No action, consent or approval of, or registration or filing with, or any other action by any governmental agency, bureau, commission or court has been required in connection with the execution, delivery and performance by the Floating Rate Payer of this Agreement, or if so required, such registration or filing has been made, such consent or approval has been given or such other appropriate action has been taken.

6. Assignment and Transfer. Neither party may assign or transfer its rights or obligations under this Agreement without the prior written consent of the other party and any purported assignment in violation of this Section shall be void; provided, however, that the consent to transfer shall not be unreasonably withheld.

7. Other Provisions Relating to the Fixed Amount. In no event shall the Fixed Amount (or any portion thereof) paid to the Floating Rate Payer pursuant to Section 1 hereof be refundable, provided that nothing contained herein shall be deemed to constitute a waiver by the Fixed Rate Payer of any of its rights to collect damages from, or to enforce other remedies against, the Floating Rate Payer in the event that the Floating Rate Payer fails to perform its obligations hereunder.

8. Amendments and Waivers. No amendment, modification or waiver with respect to this Agreement will be effective unless in writing and executed by each of the parties hereto.

9. Notices. All notices, requests and other communications to either party hereunder shall be in writing and shall be given to such party at its address, telex or telecopier number set forth on the signature page hereof or such other address, telex or telecopier number as such party may hereafter specify for the purpose of notice to the other party.

10. Termination. This Agreement shall terminate on the Termination Date, subject to any applicable requirement for payment as set forth in Section 2 hereof.

11. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

12. Authorization Documents. Upon the execution of this Agreement, the Fixed Rate Payer shall promptly deliver to the Floating Rate Payer, certified evidence of the authority, incumbency and specimen signature of each authorized person executing this Agreement on its behalf.

13. Account Details:

Payments to the Floating Rate Payer:

LaSalle Bank National Association, ABA #0710-0050-5, A/C 2090102-9030, Attn:
Derivative Operations

Payments to the Fixed Rate Payer:

Please Advise

14. Set-off. Upon the occurrence of any default by the Fixed Rate Payer with respect to any indebtedness or other amounts payable by the Fixed Rate Payer to the Floating Rate Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreements between the Fixed Rate Payer and the Floating Rate Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party, the Floating Rate Payer may at its option (but shall not be obligated to) reduce such amounts by its setoff of such amounts against any amount(s) payable (whether at such time or in the future or upon the occurrence of a contingency) by the Floating Rate Payer to the Fixed Rate Payer hereunder. For purposes hereof, if a payment obligation is unascertained, the Floating Rate Payer may in good faith estimate that obligation and setoff in respect of the estimate, subject to an accounting when the obligation is ascertained.

15. Relationship Between the Parties. Each party represents to the other party that:

(a) *Non-Reliance.* It is acting for its own account, and it has made its own independent decisions to enter into this Transaction and as to whether this Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into this Transaction; it being understood that information and explanation related to the terms and conditions of this Transaction shall not be considered investment advice or a recommendation to enter into this Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of this Transaction.

(b) *Assessment and Understanding.* It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms, conditions and risks of this Transaction. It is also capable of assuming, and assumes, the risks of this Transaction.

(c) *Status of Parties.* The other party is not acting as a fiduciary or an advisor to it in respect of this Transaction.

16. Waiver of Jury Trial. Each party irrevocably waives any and all right to trial by jury in any legal proceeding instituted in connection with this Agreement or this Transaction to the fullest extent permitted by law. As to any matter for which a jury trial cannot be waived, each party agrees not to assert any such matter as a cross claim or counterclaim in, nor move to consolidate the same with, any legal proceeding in which a jury trial is waived."

17. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each entity or person that opens an account.

When you open an account, we will ask for the business' full legal name, street address, and tax identification number and other information that will assist us in identifying the business. We may also ask for other identifying information such as your date of birth and a copy of your driver's license.

[Signature Following Page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LASALLE BANK NATIONAL ASSOCIATION

By: _____
Name:
Title:

By: _____
Name:
Title:

Address: 540 West Madison Avenue
Suite 2132
Chicago, IL 60661

Attention: Treasury Documentation
Facsimile: 312-992-5847
Phone: 312-992-5842

FRANKLIN CREDIT MANAGEMENT CORPORATION

By: _____
Name:
Title:

Address: 101 Hudson Street
Jersey City, NJ 07302

Attention: Paul Colasono
Facsimile: 201-604-4400
Telephone: 201-604-4402

Franklin Credit Management Corp.
Six Harrison Street
New York
NY 10013
USA
Attn: Paul Colasano

Dear Sirs,

Amended Confirmation

Interest Rate Cap Transaction No. 948306TS

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between us on the Trade Date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the ISDA Master Agreement referred to below.

The definitions and provisions contained in the 2000 ISDA Definitions (the "Definitions") as published by the International Swaps and Derivatives Association, Inc. are incorporated into this Confirmation. For these purposes, all references in the Definitions to a "Swap Transaction" shall be deemed to apply to the Transaction referred to herein. In the event of any inconsistency between those Definitions and this Confirmation, this Confirmation will govern.

This Confirmation supplements, forms part of and is subject to the ISDA Master Agreement to be negotiated (as amended and supplemented from time to time) between HBOS Treasury Services plc ("Party A") and Franklin Credit Management Corp ("Party B"). All provisions contained in the ISDA Master Agreement govern this Confirmation except as expressly modified below.

This Confirmation evidences a complete and binding agreement between us as to the terms of the Transaction to which this Confirmation relates. If we are not yet parties to an agreement in the form of the ISDA Master Agreement (Multicurrency Cross Border) (the "ISDA Form") we agree to promptly negotiate, execute and deliver such agreement with such modifications as we will in good faith agree. Upon execution by us of such an agreement, this Confirmation shall supplement and form part of and be subject to that agreement. All provisions contained or incorporated by reference in the agreement upon its execution will govern this Confirmation except as expressly modified below.

Until we execute and deliver that agreement, this Confirmation, together with all other documents referring to the ISDA Form (each a "Confirmation") confirming Transactions (each a "Transaction") entered into between us, (notwithstanding anything to the contrary in a Confirmation), shall supplement, form part of and be subject to an agreement in the form of the ISDA Form as if we had executed an agreement in such form (but without any Schedule except for the election of English law as the governing law and pounds sterling as the Termination Currency) on the Trade Date of the first such Transaction between us. In the event of any inconsistency between the provisions of that agreement and this Confirmation, this Confirmation will prevail for the purposes of this Transaction.

The terms of the particular Transaction to which this Confirmation relates are as follows:

A	Trade Details
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Notional Amount: USD 500,000,000.00
Trade Date: 30-Aug-06
Effective Date: 31-Aug-06
Termination Date: 31-Aug-07
Subject to adjustment in accordance with the Modified Following Business Day Convention.

The Buyer of the Transaction shall pay, to the Seller, the Premium in accordance with the following:

Fixed Rate Payer i.e. the Buyer: Party B
Fixed Amount: USD 60,000.00
Fixed Rate Payer Payment Dates: 01-Sep-06
Subject to adjustment in accordance with the Modified Following Business Day Convention.

The Seller of the Transaction shall make payment to the Buyer if the Floating Rate determined for a Calculation Period is in excess of the Cap Rate. The amount of such payment will be determined in accordance with the following:

Floating Rate Payer i.e. the Seller: Party A
Cap Rate: 6.00%
Floating Rate Payer Payment Dates: The Last day of every month in each year, Commencing 29th September 2006, up until and Including the Termination Date.
Subject to adjustment in accordance with the Modified Following Business Day Convention.
Floating Rate for initial Calculation Period: 5.33% (inclusive of spread where applicable)

Floating Rate Option: USD-LIBOR-BBA
Designated Maturity: 1 Month(s)
Spread: Not Applicable
Floating Rate Day Count Fraction: Actual /360
Reset Dates: The first day of the relevant Calculation Period
Compounding: Not Applicable
Calculation Agent: HBOS Treasury Services plc
Business Days: London and New York

Governing Law

The Transaction and this Confirmation will be governed by and construed in accordance with English Law and the parties agree to submit to the exclusive jurisdiction of the English Courts.

B	Account Details
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Payments to Party A:

Wachovia Bank NA, New York
Swift Code PNBPUS3NNYC
Account No. 2000193509911

Payments to Party B:

North Fork Bank
90 West Broadway
New York
NY 10007
ABA 021407912
Account No. 9614008341

C	Other Provisions
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Non-Reliance. It is acting for its own account, and it has made its own independent decisions to enter into Transaction and as to whether this Transaction is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it deemed necessary. It is not relying, and has not relied, on any communication (written or oral) of the other party as investment advice (a) or as a recommendation to enter this Transaction; it being understood that information and explanations related to the terms and conditions of this Transaction shall not be considered investment advice or a recommendation to enter into this Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of this Transaction.

Assessment and Understanding. It is capable to assessing the merits of and understanding (on its own behalf or through (b) independent professional advice), and understands and accepts, the terms, conditions and risks of this Transaction. It is also capable of assuming, and assumes, the risks of this Transaction.

Status of Parties. Each party represents to the other party that it is entering into this Transaction as principal (and not as agent or in (c) any other capacity) with the full understanding of the terms, conditions and risks thereof and that it is capable of and willing to assume those risks. Neither party is acting as a fiduciary for or an advisor to the other party in respect of this Transaction.

Consent to Recording Each Party (i) consents to the recording of the telephone conversations of trading and marketing personnel of the parties and their Affiliates in connection with this Agreement or any potential transaction, and (ii) agrees to obtain any necessary consent of and give notice of such recording to such personnel of it and its Affiliates and (iii) agrees such recordings may be submitted in evidence to any court or in any proceedings for the purpose of establishing any matters pertinent to any transaction.

The time of execution of a transaction is available on request.

Please confirm that the foregoing correctly sets forth the terms of our Agreement by executing and returning the enclosed copy of this Confirmation or by sending us a letter or fax substantially similar to this letter, which letter or fax sets forth the material terms of the Transaction to which this Confirmation relates and indicates agreement to those terms.

Yours faithfully,

HBOS Treasury Services plc

Franklin Credit Management Corp.

By: _____

Name: Marta Zbien

Title: Derivatives Processing Manager

Tel: 0207 574 8338

Fax: 0207 574 8363

By: _____

Name:

Title:

Franklin Credit Management Corp.

By: _____

Name:

Title:

SECTION 302 CERTIFICATION

I, Alexander Gordon Jardin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Franklin Credit Management Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

2. make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

3. respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as

4. defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

- (a) supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about

- (b) the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's

- (c) most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

5. reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

- (a) reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

- (b) internal control over financial reporting.

Date: November 14, 2006

By: /s/ Alexander Gordon Jardin
Alexander Gordon Jardin

SECTION 302 CERTIFICATION

I, Paul D. Colasono, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Franklin Credit Management Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

2. make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

- (a) supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about

- (b) the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's

- (c) most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2006

By: /s/ Paul D. Colasono
 Paul D. Colasono
 Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTIONS 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franklin Credit Management Corporation (the “Company”) on Form 10-Q for the quarter ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Alexander Gordon Jardin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alexander Gordon Jardin

Alexander Gordon Jardin

Chief Executive Officer

November 14, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTIONS 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franklin Credit Management Corporation (the “Company”) on Form 10-Q for the quarter ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul D. Colasono, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul D. Colasono
Paul D. Colasono
Chief Financial Officer
November 14, 2006
