

FRANKLIN CREDIT MANAGEMENT CORP/DE/
Form 10-Q/A
August 15, 2007

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

FORM 10-Q/A

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

For the quarterly period ended June 30, 2007

o 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 0-17771U

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 August 9, 2007:
8,025,295

FRANKLIN CREDIT MANAGEMENT CORPORATION

FORM 10-Q

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets at June 30, 2007 and December 31, 2006	3
Consolidated Statements of Income for the three and six months ended June 30, 2007 and June 30, 2006	4
Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2007	5
Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and June 30, 2006	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Application of Critical Accounting Policies and Estimates	20
Portfolio Characteristics	21
Results of Operations	31
Liquidity and Capital Resources	37
Borrowings	39
Item 3. Quantitative and Qualitative Disclosures about Market Risk	44
Item 4. Controls and Procedures	45
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	46
Item 1A. Risk Factors	46
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 3. Defaults Upon Senior Securities	49

Item 4.	Submission of Matters to a Vote of Security Holders	49
Item 5.	Other Information	49
Item 6.	Exhibits	50
SIGNATURES		51
U		

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2007	December 31,
	(Unaudited)	2006
ASSETS		
Cash and cash equivalents	\$ 8,544,360	\$ 3,983,104
Restricted cash	33,583,678	32,689,154
Short-term investments	23,342,223	20,311,193
Notes Receivable:		
Principal	1,392,325,773	1,174,039,567
Purchase discount	(11,322,314)	(12,423,746)
Allowance for loan losses	(46,276,474)	(52,424,375)
Net notes receivable	1,334,726,985	1,109,191,446
Originated loans held for sale	9,830,115	4,114,284
Originated loans held for investment, net	485,775,053	422,682,795
Accrued interest receivable	26,562,620	22,010,027
Other real estate owned	33,142,484	22,977,725
Deferred financing costs, net	11,777,638	10,622,961
Other receivables	7,065,179	6,614,386
Building, furniture and equipment, net	3,936,342	3,715,908
Income tax receivable	8,328,939	8,594,119
Other assets	1,041,424	850,897
Total assets	\$ 1,987,657,040	\$ 1,668,357,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable, net of debt discount of \$425,499 at June 30, 2007 and \$515,799 at December 31, 2006	\$ 1,861,277,953	\$ 1,520,217,264
Financing agreements	58,260,637	55,962,315
Accounts payable and accrued expenses	25,128,779	22,875,527
Repurchase obligation	-	18,094,061
Deferred tax liability	727,276	3,655,483
Total liabilities	1,945,394,645	1,620,804,650
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: 8,025,295 at June 30, 2007 and 8,025,295 at December 31, 2006	22,961,215	22,715,180
Retained earnings	19,301,180	24,838,169
Total stockholders' equity	42,262,395	47,553,349
Total liabilities and stockholders' equity	\$ 1,987,657,040	\$ 1,668,357,999

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Interest income	\$ 43,393,657	\$ 35,272,864	\$ 82,297,592	\$ 68,715,174
Purchase discount earned	1,366,649	2,223,710	2,780,207	4,202,673
Gain on sale of notes receivable	31,118	-	31,118	69,049
Gain on sale of originated loans	197,694	170,924	200,733	336,796
Gain on sale of other real estate owned	117,632	440,741	238,807	1,242,283
Prepayment penalties and other income	2,024,813	2,335,115	4,124,793	4,540,321
Total revenues	47,131,563	40,443,354	89,673,250	79,106,296
Operating Expenses:				
Interest expense	35,408,803	27,898,497	66,968,607	52,390,065
Collection, general and administrative	10,769,328	10,432,793	19,662,773	18,380,672
Provision for loan losses	5,663,222	3,162,146	9,996,686	5,031,275
Amortization of deferred financing costs	977,663	1,130,415	1,753,498	2,038,430
Depreciation	369,809	251,613	717,355	563,318
Total expenses	53,188,825	42,875,464	99,098,919	78,403,760
(Loss)/income before provision for income taxes	(6,057,262)	(2,432,110)	(9,425,669)	702,536
Income tax (benefit)/expense	(2,473,949)	(1,042,698)	(3,888,680)	305,200
Net (loss)/income	\$ (3,583,313)	\$ (1,389,412)	\$ (5,536,989)	\$ 397,336
Net (loss)/income per common share:				
Basic	\$ (0.45)	\$ (0.18)	\$ (0.70)	\$ 0.05
Diluted	\$ (0.45)	\$ (0.18)	\$ (0.70)	\$ 0.05
Weighted average number of shares outstanding:				
Basic	7,940,295	7,634,878	7,935,295	7,574,837
Diluted	7,940,295	7,634,878	7,935,295	8,055,260

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

	Common Stock and Additional Paid-in Capital		Retained Earnings	Total
	Shares	Amount		
BALANCE, JANUARY 1, 2007	8,025,295	\$ 22,715,180	\$ 24,838,169	\$ 47,553,349
Stock-based compensation	-	246,035	-	246,035
Net (loss)	-	-	(5,536,989)	(5,536,989)
BALANCE, JUNE 30, 2007	8,025,295	\$ 22,961,215	\$ 19,301,180	\$ 42,262,395

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

	Six Months Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (5,536,989)	\$ 397,336
Adjustments to reconcile (loss)/income to net cash provided by/(used in) operating activities:		
Gain on sale of notes receivable	(31,118)	(69,049)
Gain on sale of other real estate owned	(238,807)	(1,242,283)
Gain on sale of originated loans	(200,733)	(336,796)
Depreciation	717,355	563,318
Amortization of deferred costs and fees on originated loans	1,007,867	734,090
Amortization of deferred financing costs	1,753,498	2,038,430
Amortization of debt discount	90,300	680,646
Excess tax benefit	-	(531,403)
Non-cash compensation	246,035	484,108
Proceeds from the sale of and principal collections on loans held for sale	26,397,862	20,988,948
Deferred tax provision	(2,928,207)	1,138,572
Purchase discount earned	(2,780,207)	(4,202,673)
Provision for loan losses	9,996,686	5,031,275
Origination of loans held for sale	(32,221,015)	(11,946,300)
Changes in operating assets and liabilities:		
Accrued interest receivable	(4,552,593)	(1,246,127)
Other receivables	(450,793)	1,181,629
Income tax receivable	265,180	-
Other assets	(190,527)	(4,718,708)
Accounts payable and accrued expenses	2,253,252	2,553,000
Net cash (used) in/provided by operating activities	(6,402,954)	11,498,013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash	(894,524)	(22,417,907)
Purchase of notes receivable	(386,132,716)	(216,054,219)
Principal collections on notes receivable	105,768,330	141,008,398
Principal collections on loans held for investment	97,018,212	110,406,287
Origination of loans held for investment	(177,642,361)	(192,466,907)
Investment in short-term securities	(3,031,030)	825,165
Repurchase of loans held for sale and loans held for investment	(6,325,528)	-
Putback of acquired notes receivable	12,598,126	-
Proceeds from sale of other real estate owned	16,189,577	17,078,333
Proceeds from sale of loans held for investment	11,088,596	13,519,573
Proceeds from sale of notes receivable	20,998,838	84,553
Purchase of building, furniture and equipment	(937,788)	(309,598)
Net cash used in investing activities	(311,302,268)	(148,326,322)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	600,860,150	431,163,623

Principal payments of notes payable	(259,889,760)	(270,268,195)
Proceeds from financing agreements	285,207,486	206,386,407
Principal payments of financing agreements	(282,909,162)	(228,651,503)
Repurchase obligation	(18,094,061)	-
Excess tax benefit	-	531,403
Payment of deferred financing costs	(2,908,175)	(2,665,458)
Exercise of options	-	326,845
Net cash provided by financing activities	322,266,478	136,823,122
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,561,256	(5,187)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,983,104	3,886,506
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,544,360	\$ 3,881,319
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 82,993,281	\$ 47,212,204
Cash payments for taxes	\$ 89,708	\$ 3,524,080
NON-CASH INVESTING AND FINANCING ACTIVITY:		
Transfer of loans from held for sale to loans held for investment	\$ 704,698	\$ 483,601
Transfer from notes receivable and loans held for investment to OREO	\$ 26,115,529	\$ 23,354,090

See Notes to Consolidated Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

Overview

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 subprime mortgage loans, both for our portfolio and for sale into the secondary market. We specialize in acquiring and originating loans secured by 1-4 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 June 30, 2007, we had purchased and originated in excess of \$4.57 billion in mortgage loans. As of June 30, 2007, we had total assets of \$1.99 billion and our portfolios of notes receivable, loans held for investment, and loans held for sale, net, totaled \$1.83 billion.

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 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 second quarter of 2007, we purchased notes receivable with an aggregate unpaid principal balance of \$311.2 million at an aggregate purchase price equal to 84% of the face amount of the notes. Approximately 42% of the unpaid principal balance of the loans purchased was secured by first lien residential 1-4 family properties. During the six months ended June 30, 2007, we acquired \$457.5 million of notes receivable, of which approximately 45% were secured by first lien residential 1-4 family properties, at an aggregate purchase price equal to 84% 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 subprime residential mortgage loans to individuals with serious financial difficulties and whose documentation, credit histories, income and other factors cause them to be classified as subprime 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. In 2005, we began 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 1-4 family residential real estate mortgage market in order to capitalize on our extensive experience in acquiring and servicing loans with similar credit risk characteristics.

During the second quarter of 2007, we originated \$118.7 million in subprime mortgage loans, 88% of which were adjustable-rate (fixed-rate for the first two years) loans. We originated approximately 36% of our mortgage loans on a retail basis, compared with 33% in the second quarter of 2006, and the remainder through our wholesale network of mortgage brokers. During the six months ended June 30, 2007, we originated \$209.9 million in subprime mortgage loans, 86% of which were adjustable-rate (fixed-rate for the first two years) loans. We originated approximately 35% of these mortgage loans on a retail basis, compared with 67% in the six months ended June 30, 2006, and the remainder through our wholesale network of mortgage lenders. 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.

In February 2007, Tribeca acquired a wholesale mortgage origination operation, which included the employment of 59 sales and processing personnel located in Bridgewater, New Jersey. The principal purpose of the acquisition was to add experienced origination personnel and senior management to Tribeca in order to further expand the origination of its Liberty Loan products.

Tribeca paid \$485,000 for the associated fixed assets and assumed the lease obligation for the Bridgewater office facility. In addition, Tribeca took over the existing pipeline of “Alt-A” loans (loans on the credit scale between prime and subprime where the borrower possesses a strong credit history but is in need of non-traditional underwriting and processing) in various stages of processing as of the closing of the transaction, which included approximately \$17 million of loans that were locked with the borrower out of a total pipeline of \$27 million. Tribeca was required to pay 50 basis points to the seller of the wholesale mortgage origination operation for each loan in the acquired pipeline that was subsequently closed by Tribeca within 90 days of the acquisition. Tribeca did not purchase any closed loans or other assets, nor assume any liabilities other than those under the seller’s lease for the Bridgewater office space.

As of June 30, 2007, Tribeca has closed \$6.5 million of the loans in the pipeline and has paid \$33,000 in fees. As of June 30, 2007, Tribeca's obligation to pay 50 basis points to the seller for closed loans from the acquired pipeline has been satisfied.

In early August, we consolidated the processing, underwriting, closing and administrative operations of Tribeca, and as a result, reduced the number of employees by 37.

From time to time, we sell a portion of the Tribeca loan originations for cash on a whole-loan, servicing-released basis. Certain whole-loan sale contracts include provisions requiring the Company to repurchase a loan if a borrower fails to make one or more of the first loan payments due on the loan after the date of sale. In addition, the purchaser may require that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid in full within a certain amount of time from the date of sale.

In the three and six months ended June 30, 2007, the Company repurchased \$4.6 million and \$25.0 million, respectively, of Liberty Loans previously sold to investors. The Company did not have any remaining repurchase obligations, for the reasons described above, in respect to Liberty Loans sold on or before June 30, 2007. The Company's total potential repurchase obligation outstanding for all loans sold to investors was approximately \$1.5 million at June 30, 2007.

Loan Servicing

We have invested heavily to create a loan servicing capability that is focused on collections, loss mitigation and default management. In general, we seek to ensure that the loans we 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.

Financing

We have historically financed both our acquisitions of mortgage loan portfolios and our loan originations through various long and short-term borrowing arrangements with Sky Bank, the banking affiliate of Sky Financial Group, Inc., an \$18 billion regional publicly-held bank holding company headquartered in Bowling Green, Ohio, and its predecessors (collectively referred to as "Sky"). We have had a strong relationship with Sky since the early 1990s. On July 2, 2007, the pending merger between Sky Bank and Huntington Bancshares Inc. that was announced in December 2006 was completed. The combined bank, which will be the successor to our credit facilities provided by Sky, will have over \$50 billion in assets and will be the 24th largest bank holding company headquartered in the United States.

In October 2004, we consolidated all of our arrangements with Sky relating to the term funding of loan acquisitions under a Master Credit and Security Agreement (referred to as "Master Credit Facility"). Under this Master Credit Facility, which has been extended to September 30, 2007, we request loans to finance the purchase of pools of residential mortgage loans or refinance existing outstanding loans. In connection with our continued business expansion, Sky has arranged for additional financial institutions to participate under our master credit facility. In August 2006, we entered into a \$40 million revolving warehouse agreement (referred to as "Flow Warehouse") with Sky and a participant to accumulate loans acquired on a flow basis prior to aggregating such loans into term debt under the

Master Credit Facility. Prior to August 2006, loan acquisitions acquired on a flow basis were funded directly under the Master Credit Facility. Our borrowings under the Flow Warehouse and Master Credit Facility are secured by a first priority lien on the mortgage loans financed by the proceeds of our borrowings. This facility was renewed in August 2007 by Sky for \$20 million and for a term of one year. At June 30, 2007, Tribeca was in default of the rolling four-quarter pre-tax requirement, and both Sky and BOS have waived this covenant effective June 30, 2007.

To finance the loans it originates, in October 2005, Tribeca entered into a Warehousing Credit and Security Agreement (referred to as “Tribeca Warehouse Facility” or “Tribeca Warehousing Agreement”) with Sky and a participant in order to accumulate loans originated prior to aggregating such loans into term debt under a separate master credit and security agreement with Sky. This warehousing agreement is a revolving commitment for \$60 million. The Tribeca Warehouse Facility was renewed in June 2007 and expires on April 30, 2008. In the first quarter of 2006, Tribeca and certain of its subsidiaries entered into a Master Credit and Security Agreement (referred to as “Tribeca Master Credit Facility”) with Sky pursuant to which Tribeca may borrow term funds to finance originated loans temporarily financed under its Warehouse Facility. In the first quarter of 2006, Tribeca also entered into a \$100 million Master Credit and Security Agreement with BOS (USA) Inc., an affiliate of the Bank of Scotland; \$98 million under this facility was used to consolidate and refinance term loans previously made to Tribeca by Sky.

2. 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. The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the periods.

Certain amounts in prior periods have been reclassified to conform to the current period’s presentation.

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 the allowance for loan losses, the allocation of discount between accretable and nonaccretable, and income taxes. 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, 2006. The operating and financial results for interim periods reported are not necessarily indicative of the results that may be expected for the full year.

Notes Receivable and Income Recognition - The notes receivable portfolio consists primarily of secured real estate mortgage loans purchased from financial institutions and mortgage and finance companies. Such notes receivable are performing, non-performing or sub-performing at the time of purchase and are generally purchased at a discount from the principal balance remaining. Notes receivable are stated at the amount of unpaid principal, reduced by purchase discount and allowance for loan losses. Notes purchased are stated net of purchase discount. Impaired notes receivable are measured based on the present value of expected future cash flows discounted at the note's effective interest rate or, as a practical expedient, at the observable market price of the note receivable or the fair value of the collateral if the note is collateral dependent. The Company periodically evaluates the collectibility of both interest and principal of its notes receivable to determine whether they are impaired. A note receivable is considered impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the note agreement.

In general, interest on the notes receivable is calculated based on contractual interest rates applied to daily balances of the principal amount outstanding using the accrual method. Accrual of interest on notes receivable, including impaired notes receivable, is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. 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 note is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and past due interest is recognized at that time.

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 generally 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 table sets 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 June 30,	
	2007	2006
<u>UAccretable DiscountU</u>		
Balance, beginning of period	\$ 16,311,205	\$ 14,454,449
New acquisitions	-	-
Accretion	(807,939)	(1,063,092)
Transfers from nonaccretable	2,303,550	815,934
Net reductions relating to loans sold	(558,022)	-
Net reductions relating to loans repurchased	-	-
Other	-	33,237
Balance, end of period	\$ 17,248,794	\$ 14,240,528
<u>UNonaccretable DiscountU</u>		
Balance, beginning of period	\$ 73,782,538	\$ 27,516,933
New acquisitions	50,637,093	13,314,691
Transfers to accretable	(2,303,550)	(815,934)
Net reductions relating to loans sold	(227,821)	-
Net reductions relating to loans repurchased	(340,347)	(197,153)
Net reduction relating to loans charged off	(1,905,237)	-
Other, loans transferred to OREO	(1,755,372)	(606,075)
Balance, end of period	\$ 117,887,304	\$ 39,212,462

	Six Months Ended June 30,	
	2007	2006
UAccretable DiscountU		
Balance, beginning of period	\$ 12,842,755	\$ 11,360,617
New acquisitions	29,080	2,545,873
Accretion	(1,530,698)	(1,926,473)
Transfers from nonaccretable	6,467,051	2,187,617
Net reductions relating to loans sold	(558,022)	-
Net reductions relating to loans repurchased	-	(2,189)
Other	(1,372)	75,083
Balance, end of period	\$ 17,248,794	\$ 14,240,528
UNonaccretable DiscountU		
Balance, beginning of period	\$ 60,531,503	\$ 23,981,013
New acquisitions	71,516,117	18,689,222
Transfers to accretable	(6,467,052)	(2,187,617)
Net reductions relating to loans sold	(227,821)	(7,885)
Net reductions relating to loans repurchased	(493,614)	(204,026)
Net reduction relating to loans charged off	(3,990,477)	-
Other, loans transferred to OREO	(2,981,352)	(1,058,245)
Balance, end of period	\$ 117,887,304	\$ 39,212,462

The Company purchased \$311,333,817 and \$457,630,219 of loans subject to SOP 03-3, respectively, during the three and six months ended June 30, 2007. The outstanding balance of notes receivable subject to SOP 03-3 at June 30, 2007 was \$1,209,993,643.

Allowance for Loan Losses - The Company performs reviews of its loan portfolio upon purchase, at loan boarding, and on a frequent basis thereafter to segment impaired loans under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan - an amendment of FASB Statements No. 5 and 15." A loan is considered impaired when it is probable that we will be unable to collect all contractual principal and interest payments due in accordance with the terms of the note agreement. An allowance for loan losses is estimated based on our impairment analysis.

Management's judgment in determining the adequacy of the allowance for loan losses is based on the evaluation of individual loans within the portfolios, the known and inherent risk characteristics and size of the portfolio, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience and other relevant factors. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for the underlying collateral when considered necessary. Management believes that the allowance for loan losses is adequate. The allowance for loan losses is a material estimate, which could change significantly in the near term.

Effective January 1, 2005, and as a result of the adoption of SOP 03-3, additions to the allowance for loan losses relating to newly acquired loans reflect only those losses incurred by us subsequent to acquisition. The Company no longer increases the allowances through allocations from purchase discount for loans that meet the requirements of SOP 03-3. Additionally, general risk allocations are no longer applied to loans purchased subsequent to December 31, 2004. Consequently, the allowance for loan losses has declined since the adoption of SOP 03-3, and it is anticipated that the allowance will continue to decline as credits for loan losses may continue to be recorded if loans pay off and allowances related to these loans are not required or additions due to loan impairment are not required.

Originated Loans Held for Sale - The loans held for sale consist primarily of secured real estate first and second mortgages originated by the Company. Such loans held for sale are performing and are carried at lower of cost or market. The gain/loss on sale is recorded as the difference between the carrying amount of the loan and the proceeds from sale on a loan-by-loan basis. The Company records a sale upon settlement and when the title transfers to the seller.

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets.

Gains or losses resulting from loan sales are recognized at the time of sale, based on the difference between the net sales proceeds and the carrying value of the loans sold.

Certain whole-loan sale contracts include provisions requiring the Company to repurchase a loan if a borrower fails to make one or more of the first loan payments due on the loan. In addition, an investor may request that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid in full within a certain amount of time from the date of sale. The Company records a provision for estimated repurchases and premium recapture on loans sold, which is charged to gain on sale of loans.

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. As a result, the Company continues to accrue interest on secured real estate first mortgage loans originated by the Company up to a maximum of 209 days contractually delinquent with a recency payment in the last 179 days, and that are judged to be fully recoverable for both principal and accrued interest based on a foreclosure analysis, which includes an updated estimate of the realizable value of the property securing 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 90% 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 issued, 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).

Prior to adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

The compensation cost recognized in income for the plans described below was \$124,190 and \$335,350 for the three months ended June 30, 2007 and 2006, respectively. The compensation cost recognized in income for the plans described below was \$246,035 and \$484,108 for the six months ended June 30, 2007 and 2006, respectively.

· **Stock Options** - The Company awarded 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.

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 six months ended June 30, 2007 and 2006. 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.

	Six Months Ended June 30,	
	2007	2006
Risk-free interest rate	4.96%	3.85%
Weighted average volatility	95.15	47.57
Expected lives (years)	6.0	6.0

A summary of the status of the Company's stock option awards as of June 30, 2007 and changes during the six month period then ended is presented below:

	Shares	Weighted Average Exercise	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, January 1, 2007	355,000	\$ 3.38	5.41 years	\$ 1,014,560
Granted	15,000	4.98	10.00 years	-
Balance, June 30, 2007	370,000	3.44	5.12 years	1,069,560
Options exercisable at June 30, 2007	370,000	\$ 3.44		\$ 1,069,560

There were 15,000 stock option awards granted to the board of directors that immediately vested during the six months ended June 30, 2007 and 2006. At June 30, 2007 and 2006, the weighted average fair value per stock option was \$3.94 and \$3.89, respectively.

As of June 30, 2007, all of the stock options were vested and related compensation cost was fully recognized. At June 30, 2007, the Company had 10,000 warrants outstanding at an exercise price of \$5.00.

2006 Stock Incentive Plan

On May 24, 2006, the shareholders approved the 2006 Stock Incentive Plan. This approval authorized and reserved 750,000 shares for grant under the 2006 stock 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 June 30, 2007 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance, January 1, 2007	95,000	\$ 8.36
Vested	(15,000)	9.55
Forfeited	-	-
Non-vested balance, June 30, 2007	80,000	\$ 8.13

As of June 30, 2007, there was \$612,307 of unrecognized compensation cost related to the Company's restricted stock awards, which will be recognized over a period of 2.50 years.

Operating Segments - SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires companies to report financial and descriptive information about their reportable operating segments, including segment profit or loss, certain specific revenue and expense items, and segment assets. 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, reperforming or nonperforming notes receivable and promissory notes from financial institutions and mortgage and finance companies, and services and collects such notes receivable through enforcement of terms of the original note, modification of original note terms and, if necessary, liquidation of the underlying collateral. The mortgage banking segment originates or purchases, subprime residential mortgage loans from 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.

	Three Months Ended June 30,	
	2007	2006
CONSOLIDATED REVENUE:		
Portfolio asset acquisition and resolution	\$ 35,097,042	\$ 27,890,748
Mortgage banking	12,034,521	12,552,606
Consolidated revenue	\$ 47,131,563	\$ 40,443,354

CONSOLIDATED NET INCOME:		
Portfolio asset acquisition and resolution	\$ (2,072,685)	\$ (2,378,743)
Mortgage banking	(1,510,628)	989,331
Consolidated net income	\$ (3,583,313)	\$ (1,389,412)

	Six Months Ended June 30,	
	2007	2006
CONSOLIDATED REVENUE:		
Portfolio asset acquisition and resolution	\$ 67,126,405	\$ 55,834,379
Mortgage banking	22,546,845	23,271,917
Consolidated revenue	\$ 89,673,250	\$ 79,106,296

CONSOLIDATED NET INCOME:		
Portfolio asset acquisition and resolution	\$ (3,632,572)	\$ (1,601,295)
Mortgage banking	(1,904,417)	1,998,631
Consolidated net income	\$ (5,536,989)	\$ 397,336

	June 30, 2007	December 31, 2006
CONSOLIDATED ASSETS:		
Portfolio asset acquisition and resolution	\$ 1,449,990,989	\$ 1,207,914,463
Mortgage banking	537,666,051	460,443,536
Consolidated assets	\$ 1,987,657,040	\$ 1,668,357,999

Recent Accounting Pronouncements - In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is evaluating the impact the adoption of this statement may have on its consolidated financial statements.

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.

On July 13, 2006, the 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. We adopted the provisions of FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*,” an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises financial statements in accordance with FASB Statement 109, “*Accounting for Income Taxes*,” and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions, requiring recognition in our financial statements. Our evaluation was performed for the tax years ended 2003 through 2006, which remain open to examination by major tax jurisdictions to which we are subject as of June 30, 2007.

We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. Should we receive an assessment for interest and/or penalties, it would be classified in the financial statements as collection, general and administrative expenses.

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

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 principal lender and such lender's willingness to extend credit to the Company; (iii) the availability for purchases of additional loans; (iv) the availability of subprime 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 (vii) 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 "Risk Factors," "Interest Rate Risk" and "Real Estate Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and Quarterly Reports on Form 10-Q, which the Company urges investors to consider. The Company undertakes no obligation to publicly release the revisions to such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events, except as otherwise required by securities, and other applicable laws. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results on any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Application of Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 to the December 31, 2006 consolidated financial statements filed on Form 10-K. 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, and other real estate owned 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 June 30, 2007, our portfolio (excluding OREO) consisted of \$1.53 billion of notes receivable (inclusive of purchase discount not reflected on the face of the balance sheet), \$491.3 million of loans held for investment and \$9.9 million of loans held for sale. Our total loan portfolio grew 22% to \$2.03 billion as of June 30, 2007, from \$1.66 billion at December 31, 2006. Not boarded loans represent loans serviced by the seller on a temporary basis. The following table sets forth information regarding the types of properties securing our loans.

UProperty TypesU	UPrincipal BalanceU	Percentage of Total UPrincipal BalanceU
Residential 1-4 family	\$ 1,674,949,031	82.56%
Condos, co-ops, PUD dwellings	251,725,088	12.41%
Manufactured and mobile homes	20,663,493	1.02%
Multi-family	761,755	0.04%
Secured, property type unknown ⁽¹⁾	35,356,433	1.74%
Commercial	3,144,598	0.16%
Unsecured loans ⁽²⁾	31,836,515	1.57%
Other	596,500	0.03%
Not Boarded ⁽³⁾	9,626,489	0.47%
Total	\$ 2,028,659,902	100.00%

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

(2) The loans included in this category are principally second-lien loans where the residential real estate collateral has been foreclosed by the first-lien holder.

(3) A portion of not boarded loans has been included in the appropriate property type categories based on available information provided by the servicer-seller. The total amount of not boarded loans was \$111.5 million at June 30, 2007.

Geographic Dispersion. The following table sets forth information regarding the geographic location of properties securing the loans in our portfolio at June 30, 2007:

ULocationU	UPrincipal BalanceU	Percentage of Total UPrincipal BalanceU
California	\$ 282,313,427	13.92%
New York	211,512,748	10.43%
New Jersey	189,068,429	9.32%
Florida	174,612,816	8.61%
Texas	91,883,054	4.53%
Pennsylvania	87,007,262	4.29%
Ohio	71,876,962	3.54%
Illinois	66,141,335	3.26%
Maryland	65,386,568	3.22%
Michigan	62,870,798	3.10%
All Others	716,360,014	35.31%
Not Boarded*	9,626,489	0.47%
Total	\$ 2,028,659,902	100.00%

* A portion of not boarded loans has been included in the appropriate states based on available information provided by the servicer-seller. The total amount of not boarded loans was \$111.5 million at June 30, 2007.

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 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.

June 30, 2007					
	Days Past Due	Contractual Delinquency		Recency Delinquency	
		Amount	%	Amount	%
Current	0 - 30				
	days	\$ 1,101,749,313	54.31%	\$ 1,250,018,729	61.62%
	31 - 60				
	days	112,030,175	5.52%	73,818,987	3.64%
Delinquent	61 - 90				
	days	67,867,470	3.35%	41,765,848	2.06%
	90+ days	219,997,673	10.84%	136,041,067	6.70%
UBankruptcyU	0 - 30				
	days	31,576,639	1.56%	91,529,459	4.51%
	31 - 60				
	days	6,583,052	0.32%	6,939,507	0.34%
Delinquent	61 - 90				
	days	6,338,693	0.31%	4,992,138	0.25%
	90+ days	107,217,088	5.29%	48,254,368	2.38%
UForeclosureU	0 - 30				
	days	2,148,447	0.10%	23,959,975	1.18%
	31 - 60				
	days	625,461	0.03%	5,472,433	0.27%
Delinquent	61 - 90				
	days	6,645,615	0.33%	15,528,917	0.76%
	90+ days	254,366,935	12.54%	218,825,133	10.79%
Not Boarded*		111,513,341	5.50%	111,513,341	5.50%
	Total	\$ 2,028,659,902	100.00%	\$ 2,028,659,902	100.00%
Total loans	0 - 30				
	days	\$ 1,135,474,399	55.97%	\$ 1,365,508,163	67.31%

*Not boarded represents recently acquired loans serviced by the seller on a temporary basis. Approximately \$93.5 million of these loans were contractually current at the time of acquisition.

December 31, 2006					
	Days Past Due	Contractual Delinquency		Recency Delinquency	
		Amount	%	Amount	%
Current	0 - 30 days	\$ 868,344,388	52.29%	\$ 1,003,457,115	60.43%
	31 - 60				
Delinquent	days	89,662,792	5.40%	57,397,832	3.46%
	61 - 90				
	days	12,558,911	0.76%	20,572,952	1.24%
	90+ days	195,922,320	11.80%	85,060,512	5.12%
Bankruptcy	0 - 30 days	38,276,181	2.31%	101,649,384	6.12%
	31 - 60				
Delinquent	days	8,523,006	0.51%	6,957,591	0.42%
	61 - 90				
	days	3,231,686	0.19%	2,920,336	0.18%
	90+ days	104,883,243	6.32%	43,386,805	2.61%
Foreclosure	0 - 30 days	622,379	0.04%	8,371,118	0.50%
	31 - 60				
Delinquent	days	214,085	0.01%	1,789,362	0.11%
	61 - 90				
	days	244,283	0.02%	2,593,268	0.16%
	90+ days	208,091,113	12.53%	196,418,112	11.83%
Not Boarded⁽¹⁾		129,906,356	7.82%	129,906,356	7.82%
	Total⁽²⁾	\$ 1,660,480,743	100.00%	\$ 1,660,480,743	100.00%
Total loans	0 - 30 days	\$ 907,242,948	54.64%	\$ 1,113,477,617	67.06%

(1) Not boarded represents recently acquired loans serviced by the seller on a temporary basis. Approximately \$93.2 million of these loans were contractually current at the time of acquisition.

(2) Excludes \$17.2 million of loans sold to investors, which the Company committed to repurchase, that are included on the face of the balance sheet at December 31, 2006.

Notes Receivable Portfolio

At June 30, 2007, our notes receivable portfolio, which consists of purchased loans, included approximately 32,176 loans with an aggregate unpaid principal balance (“UPB”) of \$1.53 billion and a net UPB of \$1.35 billion (after allowance for loan losses of \$46.3 million), compared with approximately 29,460 loans with an aggregate UPB of \$1.25 billion and a net UPB of \$1.12 billion (after allowance for loan losses of \$52.4 million) as of December 31, 2006. Impaired loans comprise and will continue to comprise a significant portion of our portfolio. A portion 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:

	June 30, 2007	December 31, 2006
Performing loans	\$ 1,151,646,479	\$ 866,296,721
Allowance for loan losses	2,790,659	7,745,261
Nonaccretable discount*	64,768,963	29,536,412
Total performing loans, net of allowance for loan losses and nonaccretable discount	1,084,086,857	829,015,048
Impaired loans	264,302,051	251,210,748
Allowance for loan losses	43,485,815	44,679,114
Nonaccretable discount*	32,901,028	19,892,190
Total impaired loans, net of allowance for loan losses and nonaccretable discount	187,915,208	186,639,444
Not yet boarded onto servicing system	111,513,341	129,906,356
Nonaccretable discount*	20,217,313	11,102,901
Not yet boarded onto servicing system, net of allowance for loan losses and nonaccretable discount	91,296,028	118,803,455
Total notes receivable, net of allowance for loan losses and nonaccretable discount	1,363,298,093	1,134,457,947
Accretable discount*	17,248,794	12,842,755
Total Notes Receivable, net of allowance for loan losses and accretable/nonaccretable discount	\$ 1,346,049,299	\$ 1,121,615,192

* Represents purchase discount not reflected on the face of the balance sheet in accordance with SOP 03-3 for loans acquired after December 31, 2004. Accretable discount is the excess of the loan’s estimated cash flows over the purchase prices, which is accreted into income over the life of the loan. Nonaccretable discount is the excess of the undiscounted contractual cash flows over the undiscounted cash flows estimated at the time of acquisition.

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 June 30, 2007 of \$111,513,341 and \$129,906,356 as of December 31, 2006, respectively.

	June 30, 2007	December 31, 2006
Performing Loans:		
Fixed rate	\$ 931,926,671	\$ 755,334,985
Adjustable rate	216,929,149	103,216,474
Total Performing Loans	\$ 1,148,855,820	\$ 858,551,459
Impaired Loans:		
Fixed rate	\$ 168,272,356	\$ 169,586,108
Adjustable rate	52,543,880	36,945,527
Total Impaired Loans	\$ 220,816,236	\$ 206,531,635
Not Boarded Loans	\$ 111,513,341	\$ 129,906,356
Total Notes	\$ 1,481,185,397	\$ 1,194,989,450
Accretable discount	\$ 17,248,794	\$ 12,842,755
Nonaccretable discount	\$ 117,887,304	\$ 60,531,503
Total Notes Receivable, net of allowance for loan losses	\$ 1,346,049,299	\$ 1,121,615,192

Loan Acquisitions

We purchased over \$311.2 million in assets (principally residential single-family first and second lien loans) during the second quarter of 2007, compared with approximately \$133.5 million in assets (principally residential single-family loans secured by second liens) during the second quarter of 2006. During the six months ended June 30, 2007, we purchased \$457.5 million of loans as compared with \$237.3 million for the same period in 2006. Approximately 42% and 45% of the loans purchased in the three and six months ended June 30, 2007, respectively, were secured by first liens. The following table sets forth the amounts and purchase prices of our mortgage loan acquisitions during the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Number of loans	3,876	3,740	5,990	6,278
Aggregate unpaid principal balance at acquisition	\$ 311,210,405	\$ 133,462,289	\$ 457,506,807	\$ 237,289,905
Purchase price	\$ 260,746,325	\$ 120,146,984	\$ 386,132,716	\$ 216,054,218
Purchase price percentage	84%	90%	84%	91%
Percentage of 1 st liens	42%	7%	45%	11%
Percentage of 2 nd liens	58%	93%	55%	89%

During the quarter ended June 30, 2007, we put back \$12.6 million of loans principally to one seller, which were purchased in late 2006, and recovered the total amount paid at the time of purchase.

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, servicing-released basis, for cash. The following table sets forth our dispositions of purchased loans during the three and six months ended June 30, 2007 and June 30, 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Sale of Performing Loans				
Aggregate unpaid principal balance	\$ 22,255,982	\$ -	\$ 22,255,982	\$ -
Gain on sale	\$ 31,118	\$ -	\$ 31,118	\$ -
Sale of Non-Performing Loans				
Aggregate unpaid principal balance	\$ -	\$ -	\$ -	\$ 161,149
Gain on sale	\$ -	\$ -	\$ -	\$ 69,049
Total gain on sale	\$ 31,118	\$ -	\$ 31,118	\$ 69,049

Tribeca's Loan Originations

The following table sets forth Tribeca's loan originations, as well as dispositions, during the three and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Number of loans originated	471	467	851	944
Original principal balance ⁽¹⁾	\$ 118,699,834	\$ 99,638,002	\$ 209,863,371	\$ 204,413,207
Average loan amount	\$ 252,017	\$ 213,358	\$ 246,608	\$ 216,539
Originated as fixed	\$ 13,890,040	\$ 6,415,450	\$ 29,465,540	\$ 10,479,900
Originated as ARM ⁽²⁾	\$ 104,809,794	\$ 93,222,552	\$ 180,397,831	\$ 193,933,307
Number of loans sold	104	119	119	144
Aggregate face value	\$ 27,425,560	\$ 27,041,507	\$ 31,268,022	\$ 33,793,948
Gain on sale	\$ 197,694	\$ 170,924	\$ 200,733	\$ 336,796
Gain on sale percentage	0.72%*	0.63%**	0.64%*	1.00%**

(1) In the three and six months ended June 30, 2007, we originated \$9.9 million and \$22.1 million, respectively, of "Alt-A" loans.

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

* Included in gain on sale for the three and six months ended June 30, 2007 are: net gain of \$132,000 on the sale of Liberty Loans; net loss of \$56,000 from sales of "Alt-A" loans and other loans specifically originated for sale to investors; and, a recovery of \$122,000 for previously established early payment default reserves for Liberty Loans

sold in 2006.

** In the three and six months ended June 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.

27

Property Types of Originated Loans Held for Investment. At June 30, 2007, Tribeca's portfolio consisted of \$491.3 million of loans originated and held for investment and \$9.9 million of loans held for sale. Tribeca's portfolio of loans held for investment grew 15% to \$491.3 million as of June 30, 2007, from \$426.1 million at December 31, 2006. The following table sets forth information regarding the types of properties securing Tribeca's portfolio of loans held for investment.

<u>Property Types</u>	Loans Held for Investment at June 30, 2007	
	UPrincipal BalanceU	Percentage of Total UPrincipal BalanceU
Residential 1-4 family	\$ 458,773,250	93.43%
Condos, co-ops, PUD dwellings	29,775,910	6.07%
Commercial	2,268,040	0.46%
Other	205,918	0.04%
Total	\$ 491,023,118	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 six months ended June 30, 2007 and the aggregate portfolio of loans originated and held for investment at June 30, 2007:

Location	Loans Originated for Six Months Ended June 30, 2007		Loans Held for Investment at June 30, 2007	
	Principal Balance	Percentage of Total Principal Balance	Principal Balance	Percentage of Total Principal Balance
New Jersey	\$ 60,527,054	28.84%	\$ 145,757,662	29.69%
New York	57,239,942	27.28%	146,089,542	29.75%
Florida	15,849,845	7.55%	28,104,029	5.72%
Pennsylvania	13,665,956	6.51%	43,460,120	8.85%
Maryland	12,476,823	5.95%	25,211,851	5.14%
Connecticut	9,755,406	4.65%	17,831,379	3.63%
Massachusetts	9,626,200	4.59%	28,214,793	5.75%
Virginia	8,275,220	3.94%	16,900,335	3.44%
California	4,616,250	2.20%	10,064,522	2.05%
North Carolina	3,114,150	1.48%	4,767,691	0.97%
All Others	14,716,525	7.01%	24,621,194	5.01%
Total	\$ 209,863,371	100.00%	\$ 491,023,118	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 subprime 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.

June 30, 2007					
	Days Past Due	Contractual Delinquency		Recency Delinquency	
		Amount	%	Amount	%
Current	0 - 30 days	\$ 254,561,907	50.79%	\$ 299,147,753	59.68%
Delinquent	31 - 60 days	30,638,392	6.11%	22,418,230	4.47%
	61 - 90 days	17,045,315	3.40%	5,914,581	1.18%
	90+ days	46,922,792	9.36%	21,687,842	4.33%
UBankruptcyU	0 - 30 days	138,857	0.03%	4,789,041	0.96%
Delinquent	31 - 60 days	-	-	1,275,392	0.25%
	61 - 90 days	55,297	0.01%	1,402,811	0.28%
	90+ days	19,179,533	3.83%	11,906,443	2.38%
UForeclosure*U	0 - 30 days	845,930	0.17%	16,030,034	3.20%
Delinquent	31 - 60 days	466,822	0.09%	3,828,799	0.76%
	61 - 90 days	5,554,033	1.11%	12,963,977	2.59%
	90+ days	125,789,153	25.10%	99,833,128	19.92%
	Total	\$ 501,198,031	100.00%	\$ 501,198,031	100.00%
Total loans	0 - 30 days	\$ 255,546,694	50.99%	\$ 319,966,828	63.84%

*\$132.7 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, 2006					
	Days Past Due	Contractual Delinquency		Recency Delinquency	
		Amount	%	Amount	%
Current	0 - 30 days	\$ 188,855,227	45.72%	\$ 239,784,515	58.05%
	31 - 60 days				
	61 - 90 days	31,652,388	7.66%	23,558,856	5.70%
Delinquent	90+ days	2,561,701	0.62%	8,105,861	1.96%
		76,292,627	18.47%	27,912,711	6.76%
UBankruptcyU	0 - 30 days	134,904	0.03%	2,039,871	0.49%
	31 - 60 days				
	61 - 90 days	55,652	0.02%	330,509	0.08%
Delinquent	90+ days	-	-	-	-
		9,885,179	2.39%	7,705,355	1.87%
UForeclosure⁽¹⁾	0 - 30 days	-	-	1,894,422	0.46%
	31 - 60 days			621,003	0.15%
	61 - 90 days	-	-	1,258,886	0.31%
Delinquent	90+ days	103,629,240	25.09%	99,854,929	24.17%
	Total⁽²⁾	\$ 413,066,918	100.00%	\$ 413,066,918	100.00%
Total loans	0 - 30 days	\$ 188,990,131	45.75%	\$ 243,718,808	59.00%

(1) \$103.6 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.

(2) Excludes \$17.2 million of loans sold to investors, which the Company committed to repurchase, that are included on the face of the balance sheet at December 31, 2006.

During 2006, our loans held for investment, principally Liberty Loans, became more seasoned and, as generally anticipated, a significant portion of our Liberty Loans moved into the foreclosure process. At June 30, 2007, \$131.4 million of Liberty Loans, or 27% of the portfolio of loans held for investment were in our foreclosure process, compared with \$102.7 million, or 25%, at December 31, 2006 and \$44.7 million, or 12%, at December 31, 2005. Our Servicing department personnel evaluates the collateral of each loan in the foreclosure process for its estimated realizable value, utilizing updated BPOs; the estimated losses on disposition, which were included in the allowance for loan losses, aggregated approximately \$1.3 million at June 30, 2007. In addition, our experience with Liberty Loans is that a percentage of the loans in the foreclosure process pay off in full, and that such payoffs include approximately 90% of all unpaid interest due on the loans being repaid at the time of payoff, prior to actual foreclosure sale.

Other Real Estate Owned

The following table sets forth our real estate owned, or OREO portfolio, and OREO sales during the three and six months ended June 30, 2007 and June 30, 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Other real estate owned	\$ 33,142,484	\$ 19,394,263	\$ 33,142,484	\$ 19,394,263
OREO as a percentage of total assets	1.67%	1.32%	1.67%	1.32%
OREO sold	\$ 7,574,705	\$ 8,284,103	\$ 15,927,485	\$ 15,830,201
Gain on sale	\$ 117,632	\$ 440,741	\$ 238,807	\$ 1,242,283

Results of Operations**Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006**

Overview. The Company had a net loss of \$3.6 million for the second quarter of 2007, compared with a net loss of \$1.4 million for the second quarter of 2006. Revenues increased by 17% to \$47.1 million for the three months ended June 30, 2007, from \$40.4 million for the three months ended June 30, 2006. The Company had a loss per common share for the three months ended June 30, 2007 of \$0.45 both on a diluted and basic basis, compared to a loss of \$0.18 both on a diluted and basic basis for the three months ended June 30, 2006. During the second quarter of 2007, we acquired first and second lien loans with an aggregate face amount of \$311.2 million and we originated \$118.7 million of subprime 1-4 family residential loans. We increased the size of our total portfolio of net notes receivable, loans held for sale, loans held for investment and OREO at June 30, 2007 to \$1.86 billion from \$1.56 billion at the end of 2006. Interest income increased by \$8.1 million, or 23%, in the second quarter of 2007 compared with the second quarter of 2006, due to the increase in our total loan portfolios. Correspondingly, our total debt outstanding grew to \$1.92 billion at June 30, 2007 from \$1.58 billion at December 31, 2006. As a result principally of the increase of our total debt, interest expense (inclusive of amortization of deferred financing costs and success fees) increased by \$7.4 million, or 25%, for the second quarter of 2007 compared with the same period in 2006. Our average cost of funds during the three months ended June 30, 2007 decreased to 7.84% from 7.86% during the three months ended June 30, 2006. At June 30, 2007, the weighted average interest rate of borrowed funds was 7.82%. Collection, general and administrative expenses increased \$337,000, or 3%, to \$10.8 million during the three months ended June 30, 2007, from \$10.4 million for the same period in 2006. The increase in collection, general and administrative expenses reflected for the most part the additional operating expenses of the wholesale origination unit acquired in February 2007. The provision for loan losses increased \$2.5 million to \$5.7 million in the three months ended June 30, 2007, principally due to increased defaults experienced in certain pools of loans purchased in 2005 and for the portfolio of Liberty Loans and lower values on foreclosed properties. Gains on loan sales increased by \$27,000 to \$198,000 in the three months ended June 30, 2007. Stockholders' equity decreased 11% to \$42.3 million at June 30, 2007, from \$47.6 million at December 31, 2006.

Revenues. Total revenues increased by \$6.7 million, or 17%, to \$47.1 million during the second quarter of 2007, from \$40.4 million during the same period in 2006. 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 \$8.1 million, or 23%, to \$43.4 million during the three months ended June 30, 2007 from \$35.3 million during the three months ended June 30, 2006. The increase in interest income reflected a 36% increase

in the portfolios of gross notes receivable and loans held for investment, partially offset by an increase in non-accrual loans, during the three months ended June 30, 2007 compared to the three months ended June 30, 2006.

Purchase discount earned decreased by \$857,000, or 39%, to \$1.4 million during the second quarter of 2007 from \$2.2 million during the second quarter of 2006. This decrease resulted primarily from less purchase discount available for accretion from portfolios purchased in 2005 and 2006, a declining balance of purchase discount remaining for accretion from pre-2005 acquisitions and a slower rate of prepayments. We received \$44.7 million of principal payments from notes receivable during the three months ended June 30, 2007, compared with \$73.0 million of principal payments during the same period in 2006.

The Company realized a gain on sales of notes receivable of \$31,000 from sales of \$22.3 million of performing low-coupon notes receivable during the three months ended June 30, 2007. The Company did not sell any notes receivable during the three months ended June 30, 2006.

Gain on sales of originated loans, which included a \$122,000 recovery of the unused portion of a repurchase reserve for loans sold in 2006, increased by \$27,000, or 16%, to \$198,000 during the three months ended June 30, 2007, from \$171,000 during the three months ended June 30, 2006. The Company sold \$27.4 million of originated loans during the three months ended June 30, 2007, compared with \$27.0 million of loans during the three months ended June 30, 2006. \$7.5 million of the loans sold in the second quarter of 2006, which were originated for sale to investors, but, for various reasons, did not meet investor requirements, were sold at a loss. In the three months ended June 30, 2007, \$11.0 million of Liberty Loans were sold for a net gain of \$132,000. The average gain on loans sold, exclusive of the reserve recapture and a \$24,000 mark-to-market adjustment on the remaining "Alt-A" loans held for sale, was 0.46% during the second quarter of 2007 compared with an average gain of 1.63% during the second quarter of 2006, excluding the \$7.5 million of loans sold at a loss.

Gain on sales of OREO decreased by \$323,000, or 73%, to \$118,000 during the three months ended June 30, 2007, from \$441,000 during the three months ended June 30, 2006. We sold 112 OREO properties with an aggregate carrying value of \$7.6 million during the second quarter of 2007, as compared to 150 OREO properties in the aggregate amount of \$8.3 million during the second quarter of 2006. The decrease in gain on sale of OREO properties was due in part to the sale of properties in certain parts of the country where housing values have declined.

Prepayment penalties and other income (principally late charges and other servicing fees) decreased by \$310,000, or 13%, to \$2.0 million during the three months ended June 30, 2007 from \$2.3 million during the corresponding period last year. This decrease was primarily due to a slower rate of loan payoffs in general and fewer payoffs from states where prepayment penalties are allowed during the three months ended June 30, 2007, as compared with the corresponding period in 2006. This decrease was partially offset by increased late charges resulting primarily from the growth in the size of our loan portfolios.

Operating Expenses. Total operating expenses increased by \$10.3 million, or 24%, to \$53.2 million during the second quarter of 2007 from \$42.9 million during the same period in 2006. 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 \$7.5 million, or 27%, to \$35.4 million during the three months ended June 30, 2007, from \$27.9 million during the three months ended June 30, 2006. This increase was the result of the increase in total debt, which was \$1.92 billion as of June 30, 2007 as compared with \$1.40 billion as of June 30, 2006, reflecting additional borrowings to fund the growth in total assets during this period. Our average cost of funds during the three months ended June 30, 2007 decreased to 7.84% from 7.86% during the three months ended June 30, 2006, reflecting repayments of older term debt at rates higher than the rates on new term debt.

Collection, general and administrative expenses increased by \$337,000, or 3%, to \$10.8 million during the three months ended June 30, 2007, from \$10.4 million during the corresponding period in 2006, principally reflecting \$1.2 million of operating expenses incurred by the wholesale origination unit that the Company acquired in late February 2007 and the growth of the Company and the increase in total assets. Collection, general and administrative expenses as a percentage of average assets decreased to 2.30% during the three months ended June 30, 2007 from 2.89% during the three months ended June 30, 2006. Salaries and employee benefits expenses increased by \$289,000, or 6%, principally reflecting an increase in the number of employees, primarily due to the growth of our Company including the addition of employees from the acquisition of the wholesale origination unit in February 2007. We ended the second quarter of 2007 with 318 employees, which included 62 employees from the acquired wholesale origination unit, as compared to 225 at the end of the second quarter of 2006. The cost of outside services, principally appraisals and title searches, incurred in servicing delinquent loans decreased by \$72,000, or 16%, to \$386,000 during the three months ended June 30, 2007 compared to \$457,000 for the three months ended June 30, 2006. Legal fees, principally relating to increased activity with respect to foreclosures, increased by \$240,000, or 17%, to \$1.7 million from \$1.4 million during the same period last year. The increase in foreclosure activity and the associated legal costs were principally the result of an increase of Liberty Loans in the foreclosure process. Professional fees decreased by \$385,000, or 43%, to \$514,000 from \$899,000 due to decreased recruitment fees compared to the same period last year. All other general and administrative expenses, including rent, insurance, licenses, maintenance and support for our computer systems, and portfolio acquisition costs, increased by \$265,000, which is attributable to the growth of our business.

The provision for loan losses increased by \$2.5 million, or 79%, to \$5.7 million during the three months ended June 30, 2007, from \$3.2 million during the three months ended June 30, 2006. This increase was primarily due to increased defaults experienced in certain pools of loans purchased in 2005, increased reserves required on Liberty Loans moving through the foreclosure process and declining property values on new and existing properties acquired through foreclosure.

Amortization of deferred financing costs decreased by \$153,000, or 14%, to \$978,000 during the second quarter of 2007 from \$1.1 million during the second quarter of 2006. This decrease resulted primarily from a slower rate of prepayments on all portfolios of loans that caused reduced prepayments of borrowed funds, combined with a reduction of the origination fees charged by our lender. The origination fee for term debt was reduced from 0.75% to 0.50% for loans acquired after June 23, 2006, and from 1.00% to 0.50% for loans originated after June 30, 2005.

Depreciation expenses increased by \$118,000, or 47%, to \$370,000 in the second quarter of 2007. This increase during the three months ended June 30, 2007 was principally due to \$485,000 in fixed assets purchased with the acquisition of the wholesale originations unit and new enhancements to our mortgage origination software.

Our pre-tax income decreased by \$3.6 million to a net loss of \$3.6 million during the three months ended June 30, 2007, from a loss of \$1.4 million during the three months ended June 30, 2006 for the reasons set forth above.

During the three months ended June 30, 2007, the Company had a tax benefit of \$2.5 million, as compared to \$1.0 million during the three months ended June 30, 2006.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Overview. The Company had a net loss of \$5.5 million for the first half of 2007, compared with net income of \$397,000 for the first half of 2006. Revenues increased by 13% to \$89.7 million for the six months ended June 30, 2007, from \$79.1 million for the six months ended June 30, 2006. The Company had a loss per common share for the six months ended June 30, 2007 of \$0.70 both on a diluted and basic basis, compared to earnings per share of \$0.05 both on a diluted and basic basis for the six months ended June 30, 2006. During the first half of 2007, we acquired first and second lien loans with an aggregate face amount of \$457.5 million and we originated \$209.9 million of subprime 1-4 family residential loans. We increased the size of our total portfolio of net notes receivable, loans held for sale, loans held for investment and OREO at June 30, 2007 to \$1.86 billion from \$1.56 billion at the end of 2006, and from \$1.37 billion at June 30, 2006. Interest income increased by \$13.6 million, or 20%, to \$82.3 million during the six months ended June 30, 2007, from \$68.7 million during the six months ended June 30, 2006, due to the growth of our total loan portfolios. Correspondingly, our total debt outstanding grew to \$1.92 billion at June 30, 2007 from \$1.58 billion at December 31, 2006, and from \$1.40 billion at June 30, 2006. As a result of the increase of our total debt, and the impact of approximately a 101 basis points rise in short-term interest rates since the beginning of 2006 on our interest-sensitive borrowings, interest expense (inclusive of amortization of deferred financing costs and success fees) increased by \$14.3 million, or 26%, during the first half of 2007 compared with the same period in 2006. Our average cost of funds during the six months ended June 30, 2007 increased to 7.78% from 7.69% during the six months ended June 30, 2006. At June 30, 2007, the weighted average interest rate of borrowed funds was 7.82%. Collection, general and administrative expenses increased \$1.3 million, or 7%, to \$19.7 million during the six months ended June 30, 2007, from \$18.4 million for the same period in 2006. The increase in collection, general and administrative expenses reflected for the most part the additional operating expenses of the wholesale origination unit acquired in February 2007. The provision for loan losses increased \$5.0 million to \$10.0 million in the six months ended June 30, 2007, principally due to increased defaults experienced in certain pools of loans purchased in 2005 and lower values on foreclosed properties. Gains on loan sales decreased by \$136,000 to \$201,000 in the six months ended June 30, 2007. Stockholders' equity decreased 11% to \$42.3 million at June 30, 2007, from \$47.6 million at December 31, 2006.

Revenues. Total revenues increased by \$10.6 million, or 13%, to \$89.7 million during the first half of 2007, from \$79.1 million during the same period in 2006. 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 \$13.6 million, or 20%, to \$82.3 million during the six months ended June 30, 2007 from \$68.8 million during the six months ended June 30, 2006. The increase in interest income reflected a 36% increase in the portfolios of gross notes receivable and loans held for investment, partially offset by an increase in non-accrual loans, during the six months ended June 30, 2007 compared to the six months ended June 30, 2006.

Purchase discount earned decreased by \$1.4 million, or 34%, to \$2.8 million during the first half of 2007 from \$4.2 million during the first half of 2006. This decrease resulted primarily from less purchase discount available for accretion from portfolios purchased in 2005 and 2006, a declining balance of purchase discount remaining for accretion from pre-2005 acquisitions and a slower rate of prepayments. We received \$105.8 million of principal payments from notes receivable during the six months ended June 30, 2007, compared with \$141.0 million of principal payments during the same period in 2006.

Gain on sales of notes receivable decreased by \$38,000, or 55%, to \$31,000 for the six months ended June 30, 2007 from \$69,000 for the six months ended June 30, 2006. The Company sold \$22.3 million of performing low-coupon notes receivable during the six months ended June 30, 2007, as compared to \$161,000 of non-performing notes receivable during the six months ended June 30, 2006.

Gain on sales of originated loans, which included a \$122,000 recovery of the unused portion of a repurchase reserve for loans sold in 2006 and a negative mark-to-market adjustment of \$149,000 on "Alt-A" loans held for sale, decreased by \$136,000, or 40%, to \$201,000 during the six months ended June 30, 2007, from \$337,000 during the six months ended June 30, 2006. The Company sold \$31.3 million of originated loans during the six months ended June 30, 2007, compared with \$33.8 million of loans during the six months ended June 30, 2006. \$7.5 million of the loans sold in the first half of 2006, which were originated for sale to investors, but, for various reasons, did not meet investor requirements, were sold at a loss. In the six months ended June 30, 2007, \$11.0 million of Liberty Loans were sold for a net gain of \$132,000. The average gain on loans sold, exclusive of the reserve recapture and mark-to-market adjustment, was 0.76% during the first half of 2007 compared with an average gain of 1.79% during the first half of 2006, excluding the \$7.5 million of loans sold at a loss.

Gain on sales of OREO decreased by \$1.0 million, or 81%, to \$239,000 during the six months ended June 30, 2007, from \$1.2 million during the six months ended June 30, 2006. We sold 241 OREO properties with an aggregate carrying value of \$15.9 million during the first half of 2007, as compared to 285 OREO properties in the aggregate amount of \$15.8 million during the first half of 2006. The decrease in gain on sale of OREO properties was due in part to the sale of properties in certain parts of the country where housing values have declined.

Prepayment penalties and other income (principally late charges and other servicing fees) decreased by \$416,000, or 9%, to \$4.1 million during the six months ended June 30, 2007 from \$4.5 million during the corresponding period last year. This decrease was primarily due to a slower rate of loan payoffs in general and fewer payoffs of self-originated Liberty Loans from states where prepayment penalties are allowed, during the six months ended June 30, 2007, as compared with the corresponding period in 2006. This decrease was partially offset by increased late charges resulting primarily from the growth in the size of our loan portfolios.

Operating Expenses. Total operating expenses increased by \$20.7 million, or 26%, to \$99.1 million during the first half of 2007 from \$78.4 million during the same period in 2006. 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 \$14.6 million, or 28%, to \$67.0 million during the six months ended June 30, 2007, from \$52.4 million during the six months ended June 30, 2006. This increase was the result of the increase in total debt, which was \$1.92 billion as of June 30, 2007 as compared with \$1.40 billion as of June 30, 2006, reflecting additional borrowings to fund the growth in total assets during this period. In addition, our average cost of funds during the six months ended June 30, 2007 increased to 7.78% from 7.69% during the six months ended June 30, 2006, reflecting the 101 basis point rise in short-term interest rates during the first seven months of 2006 and its impact on our interest-rate sensitive borrowings.

Collection, general and administrative expenses increased by \$1.3 million, or 7%, to \$19.7 million during the six months ended June 30, 2007, from \$18.4 million during the corresponding period in 2006, principally reflecting the growth of the Company and the increase in total assets, and \$1.7 million of operating expenses incurred by the wholesale origination unit that the Company acquired in late February 2007. Collection, general and administrative expenses as a percentage of average assets decreased to 2.15% during the six months ended June 30, 2007 from 2.62% during the six months ended June 30, 2006. Salaries and employee benefits expenses increased by \$831,000, or 10%, principally reflecting an increase in the number of employees, primarily due to the growth of our Company and the addition of employees from the acquisition of the wholesale origination unit during the first quarter of 2007. We

ended the first half of 2007 with 318 employees, which included 62 employees from the acquired wholesale origination unit, as compared to 225 at the end of the first half of 2006. The cost of outside services, principally appraisals and title searches, incurred in servicing delinquent loans increased by \$37,000, or 6%, to \$697,000 during the six months ended June 30, 2007 compared to \$660,000 for the six months ended June 30, 2006 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 \$513,000, or 21%, to \$3.0 million from \$2.5 million during the same period last year. Increased foreclosure activity of Liberty Loans was the major contributor to the increase in foreclosure legal costs. Professional fees decreased by \$448,000, or 30%, to \$1.1 million from \$1.5 million due to decreased recruitment fees compared to the same period last year. All other general and administrative expenses, including rent, insurance, licenses, maintenance and support for our computer systems, and portfolio acquisition costs, decreased by \$26,000.

The provision for loan losses increased by \$5.0 million, or 99%, to \$10.0 million during the six months ended June 30, 2007, from \$5.0 million during the six months ended June 30, 2006. This increase was primarily due to increased defaults experienced in certain pools of loans purchased in 2005, increased reserves required for Liberty Loans moving through the foreclosure process and reductions in estimated values on new and existing properties acquired through foreclosure.

Amortization of deferred financing costs decreased by \$285,000, or 14%, to \$1.8 million during the first half of 2007 from \$2.0 million during the first half of 2006. This decrease resulted primarily from a slower rate of prepayments on all portfolios of loans, which caused reduced prepayments of borrowed funds, coupled with a reduction of the origination fees charged by our lender to fund portfolio acquisitions and loan originations. The origination fee for term debt was reduced from 0.75% to 0.50% for loans acquired after June 23, 2006, and from 1.00% to 0.50% for loans originated after June 30, 2005.

Depreciation expenses increased by \$154,000, or 27%, to \$717,000 in the first half of 2007. This increase during the six months ended June 30, 2007 was principally due to \$485,000 in fixed assets purchased with the acquisition of the wholesale originations unit and new enhancements to our mortgage origination software.

Our pre-tax income decreased by \$10.1 million to a net loss of \$5.5 million during the six months ended June 30, 2007, from net income of \$397,000 during the six months ended June 30, 2006 for the reasons set forth above.

During the six months ended June 30, 2007, the Company had a tax benefit of \$3.9 million, as compared to a tax provision of \$305,000 during the six months ended June 30, 2006. The effective tax rate for the six months ended June 30, 2006 was 43%.

Liquidity and Capital Resources

General

During the three months ended June 30, 2007, we purchased 3,876 loans, consisting primarily of first and second mortgages, with an aggregate face value of \$311.2 million at an aggregate purchase price of \$260.7 million, or 84% of face value. During the six months ended June 30, 2007, we purchased 5,990 loans with an aggregate face value of \$457.5 million at an aggregate purchase price of \$386.1 million, or 84% of face value. All purchased loans were funded through borrowings under our master credit facility. While our lender funded a significant volume of purchased loan pools during the second quarter of 2007, our lender is not required under the terms of our master credit facility to provide fundings for new purchases of loan pools.

During the three and six months ended June 30, 2007, we originated \$118.7 million and \$209.9 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 under our Tribeca master credit facility after transfer from the warehouse facility. 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, Sky Bank, 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. While our lenders funded a significant volume of loans originated during the second quarter of 2007, our lenders are not required to fund additional loan originations under the terms of their respective master credit facilities.

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 and newly originated Liberty Loans from time to time, and we sell loans that we originate specifically for sale into the secondary market on a regular basis.

On July 2, 2007, the pending merger between Sky Bank and Huntington Bancshares Inc. that was announced in December 2006 was completed. The combined bank, which will be the successor to our credit facilities provided by Sky, will have over \$50 billion in assets and will be the 24th largest bank holding company headquartered in the United States.

As a result of the growth of the loan portfolios, management continues 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 been actively seeking additional term debt funding alternatives with banks, financial institutions and other entities in order to expand our borrowing capabilities.

Short-term Investments. The Company’s short-term investment portfolio includes U.S. treasury bills, investment-grade commercial paper and money market accounts. 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 June 30, 2007, the Company had short-term investments of \$23.3 million.

Cost of Funds. As of June 30, 2007, we had total borrowings of \$1.92 billion, of which \$1.86 billion was under our term loan facilities and an aggregate of \$58.3 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 June 30, 2007, the interest rates on our term debt were as follows:

Prime rate plus a margin of 0.50% to 1.75%	\$ 2,929,359
FHLB 30-day LIBOR advance rate plus 2.00%	158,158,300
FHLB 30-day LIBOR advance rate plus 2.30%	143,413,370
FHLB 30-day LIBOR advance rate plus 2.35%	552,501,874
FHLB 30-day LIBOR advance rate plus 2.50%	1,003,496,038
FHLB 30-day LIBOR advance rate plus 3.375%	352,102
FHLB 30-day LIBOR advance rate plus 3.875%	852,409
	\$ 1,861,703,452

At June 30, 2007, the weighted average interest rate on term debt was 7.82%. 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 June 30, 2007 and June 30, 2006.

Cash Flow from Operating, Investing and Financing Activities

Liquidity represents our ability to obtain adequate 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. In accordance with the terms of our credit facilities with our lenders, we receive a cash allowance that is adequate to meet our operating expenses.

At June 30, 2007, we had cash and cash equivalents of \$8.5 million compared with \$4.0 million at December 31, 2006. Restricted cash of \$33.6 million and \$32.7 million at June 30, 2007 and December 31, 2006, respectively, was restricted under our credit agreements and lockbox facility with our lead lending bank, Sky Bank.

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 used in operating activities was \$6.4 million as of June 30, 2007, compared with cash provided of \$11.5 million during the six months ended June 30, 2006. The decrease in cash provided by operating activities during the six months ended June 30, 2007 was due primarily to an increase in the volume of "Alt-A" loans originated for sale in the secondary market that were not sold as of June 30, 2007.

Net cash used in investing activities was \$311.3 million in the six months ended June 30, 2007, compared to \$148.3 million of cash used in the six months ended June 30, 2006. The increase in cash used during the six months ended June 30, 2007 was primarily due to a \$170.1 million increase in purchases of notes receivable and a \$48.6 million decrease in principal collections on both notes receivable and loans held for investment due to a slower rate or prepayments compared to the same period last year.

Net cash provided by financing activities increased to approximately \$322.3 million during the six months ended June 30, 2007, from \$136.8 million provided by financing activities during the six months ended June 30, 2006. Proceeds from notes payable increased \$169.7 million and proceeds from financing agreements increased \$78.8 million, both due to increased portfolio purchases during the period. Payoffs of financing agreements increased \$54.3 million, due to the addition of a Flow Warehouse line in August 2006 that is used to temporarily warehouse loan acquisitions from our flow acquisitions channel pending term debt financing. These changes were partially offset by an \$18.1 million decrease in the repurchase obligation in the first half of 2007, which was funded by an increase in the proceeds from notes payable.

Borrowings

As of June 30, 2007, the Company owed an aggregate of \$1.92 billion under several credit facilities with our lenders. 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).

Master Credit Facilities - Term Loans

General. In October 2004, the Company, and its finance subsidiaries, excluding Tribeca, entered into a master credit and security agreement (the "Franklin Master Credit Facility") with Sky Bank, an Ohio banking corporation, which we refer to as our lender or Sky Bank. Under this master credit facility, we request term loans to finance the purchase of residential mortgage loans or refinance existing outstanding loans under this facility. The facility does not include a commitment to additional lendings or a commitment to refinance existing outstanding term loans when they mature, which are therefore subject to our lender's discretion as well as any regulatory limitations to which our lender is subject. The facility has been extended by Sky Bank and currently expires on September 30, 2007.

In February 2006, Tribeca and certain of its subsidiaries entered into the Tribeca Master Credit Facility with Sky Bank, pursuant to which certain Tribeca subsidiaries may borrow term loans to finance their origination of loans Tribeca previously financed under its warehouse line of credit with Sky Bank and consolidate and refinance prior term loans made by Sky Bank to such subsidiaries. The facility does not include a commitment for additional lendings or a commitment to refinance existing outstanding term loans when they mature, which are subject to our lender's discretion, as well as any regulatory limitations to which Sky Bank is subject. The facility expires on February 28, 2008.

Interest Rates and Fees. Interest on the term 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 in effect prior to August 2006 as follows:

	For Loans Funded	
	Prior to July 1, 2005	On or After July 1, 2005
If the 30-day advance rate	the applicable margin	
is	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

August 2006 Modifications to Sky Bank Financing Arrangements

In August 2006, the master credit facilities were modified to reduce the interest rate on all debt originated under the master credit facilities before July 1, 2005 by 25 basis points effective October 1, 2006. This rate was lowered by an additional 25 basis points effective January 1, 2007.

December 2006 Modifications to Sky Bank Financing Arrangements

In December 2006, the master credit facilities were modified to change the interest rate on term loans funded under the master credit facilities after November 14, 2006 for loans originated by Tribeca and purchases of second mortgages by the Company to the Federal Home Loan Bank of Cincinnati 30-day advance rate as published daily by Bloomberg under the symbol FHL5LBRI (the “30-day advance rate”), plus the applicable margin as follows:

If the 30-day advance rate	the applicable margin
is	is
Less than 2.26%	300 basis points
2.26 to 4.50%	260 basis points
Greater than 4.50%	235 basis points

Additionally, the interest rate payable to Sky Bank on term loans funded under the Franklin Master Credit Facility after November 14, 2006 in respect of purchases of first mortgages by the Company will be the 30-day advance rate, plus the applicable margin as follows:

If the 30-day advance rate	the applicable margin
is	is
Less than 2.26%	300 basis points
2.26 to 4.50%	225 basis points
Greater than 4.50%	200 basis points

As a result of these modifications, effective January 1, 2007, the interest rate on term borrowings under our Master Credit Facilities is based on a floating rate equal to the 30-day advance rate, plus the applicable margin as follows:

		For Loans Funded	
Prior to November 15, 2006		Purchase of First Mortgages	On or After November 15, 2006 Tribeca Originated Loans/ Second Mortgage Purchases
If the 30-day advance rate is	the applicable margin is	the applicable margin is	the applicable margin is
Less than 2.26%	300 basis points	300 basis points	300 basis points
2.26 to 4.50%	275 basis points	225 basis points	260 basis points
Greater than 4.50%	250 basis points	200 basis points	235 basis points

Upon each closing of a loan after June 23, 2006, we are required to pay an origination fee equal to 0.50% of the amount of the loan unless otherwise agreed to by our lender. For loans funded between July 1, 2005 and June 23, 2006, under the Franklin Master Credit Facility, the origination fee paid was 0.75% of the amount of the loan (0.50% for loans funded under the Tribeca Master Credit Facility), and for loans funded prior to July 1, 2005, the origination fee paid was 1% of the amount of the loan unless otherwise agreed to by our lender.

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 Facilities contain affirmative, negative and financial covenants customary for financings of this type, including, among other things, a covenant under the Franklin Master Credit Facility that we and our subsidiaries together maintain a minimum net worth of at least \$10 million; and, a covenant under the Tribeca Master Credit Facility that Tribeca and its subsidiaries, together, maintain a minimum net worth of at least \$3.5 million and rolling four-quarter pre-tax net income of at least \$750,000. These master credit facilities contain events of default customary for facilities of this type (with customary grace and cure periods, as applicable). Franklin was in compliance with such covenants as of June 30, 2007. At June 30, 2007, Tribeca was in default of the rolling four-quarter pre-tax income requirement, and Sky has waived this covenant effective June 30, 2007.

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

Bank of Scotland Term Loan

In March 2006, Tribeca and one of Tribeca’s subsidiaries (the “Tribeca Subsidiary Borrower”) entered into a \$100 million Master Credit and Security Agreement (the “BOS Loan”) with BOS (USA) Inc., an affiliate of Bank of Scotland. \$98.2 million of proceeds of the BOS Loan were used to consolidate and refinance prior term loans made to certain Tribeca subsidiaries. Interest on the BOS Loan is payable monthly at a floating rate equal to the 30-day advance rate plus an applicable margin as follows:

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

The unpaid principal balance of the BOS Loan will be amortized over a period of 20 years, but matures in March 2009. The Tribeca Subsidiary Borrower is required to make monthly amortization payments and payments of interest on the BOS Loan. The facility does not include a commitment to additional lendings or a commitment to refinance the remaining outstanding balance of the loan when it matures.

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 \$3.5 million and rolling four-quarter pre-tax net income of \$750,000. The facility contains events of default customary for facilities of this type. At June 30, 2007, Tribeca was in default of the rolling four quarter pre-tax net income requirement, and BOS has waived this covenant effective June 30, 2007.

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 Tribeca Master Credit Facility 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 Tribeca Master Credit Facility are cross-collateralized.

Warehouse Facilities

Tribeca Warehouse. In October 2005, Tribeca entered into a Warehousing Credit and Security Agreement (the “Tribeca Warehouse Facility”) with our lender, which replaced previous warehouse lending agreements. In April 2006, our lender increased the commitment to \$60 million. The facility has been renewed by our lender and expires on April 30, 2008.

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 Tribeca 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 Tribeca Warehouse Facility, which is secured by substantially all of Tribeca’s personal property. As of June 30, 2007, Tribeca had approximately \$13.2 million available under this facility.

Flow Warehouse. In August 2006, we entered into a new \$40 million Flow Warehousing Credit and Security Agreement (the “Flow Warehouse Facility”) for a term of one year with our lender to accumulate loans acquired by the Company on a flow basis prior to consolidating such loans into term debt. This warehouse facility was renewed in August 2007 by Sky for \$20 million and for a term of one year.

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 Flow 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 Flow Warehouse Facility, which is secured by substantially all our personal property. As of June 30, 2007, we had approximately \$31.5 million available under this facility. Under the new \$20 million Flow Warehouse Credit Facility, we would have had approximately \$11.5 million available as of June 30, 2007.

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. 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 of the caps is 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 June 30, 2007:

Interest Rate Caps	Notional Amount	Expiration Date	Premium Paid	Fair Value
Cap 1	\$ 300,000,000	August 31, 2007	\$ 101,000	\$ -
Cap 2	500,000,000	August 31, 2007	60,000	-
Total	\$ 800,000,000		\$ 161,000	\$ -

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 \$1.92 billion of borrowings under term loan and warehouse facilities outstanding at June 30, 2007, a 1% instantaneous and sustained increase in both FHLB and prime rates could increase quarterly interest expense by as much as approximately \$4.8 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 from April 1, 2007 to August 31, 2007, the offsetting benefit of the Company's interest rate caps could reduce the quarterly negative impact of a 1% instantaneous and sustained increase in both FHLB and prime rates by approximately \$973,000, pre-tax.

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. Recently, residential real estate values have been declining in many markets and it is expected that housing price depreciation will continue in many markets in the near term.

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 upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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, 2006. 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.
- The completed merger of our principal lender, Sky Bank, with Huntington Bancshares Inc., could harm our ability to borrow funds to support our business.
- 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. During the past year, residential real estate values in many markets have been declining and could harm our financial performance.
- The residential mortgage origination business is a cyclical industry, with volumes recently reaching their highest levels ever, volumes and profitability declining in 2006 and continuing to decline in the first half of 2007, 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 and acquisitions are secured by property in California, New York, New Jersey and Florida, and our operations could be harmed by economic downturns or other adverse events in these states, including substantial and/or sustained declines in residential real estate values.
- 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 subprime residential mortgage loans.
- We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, sellers of loans we acquire, 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.
- A loss of our Chairman may adversely affect our operations.
- 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, 2006.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On June 5, 2007, at the Company's annual meeting, the stockholders voted to elect eight Directors to the Board of Directors and to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2007.

Election of Directors

Director	For	Withhold	Abstain	Not Voted	Total
Thomas J. Axon	7,051,661	235	12,830	944,572	8,009,298
Alexander Gordon Jardin	7,051,661	235	12,830	944,572	8,009,298
William F. Sullivan	7,051,661	235	12,830	944,572	8,009,298
Michael Bertash	7,051,661	235	12,830	944,572	8,009,298
Robert M. Chiste	7,051,661	235	12,830	944,572	8,009,298
Frank B. Evans	7,051,661	235	12,830	944,572	8,009,298
Steven W. Lefkowitz	7,051,661	235	12,830	944,572	8,009,298
Allan R. Lyons	7,051,661	235	12,830	944,572	8,009,298

Independent Registered Public Accountants

For	Against	Abstain	Not Voted	Total
3,725,667	505	3,333,554	944,572	8,009,298

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.
- 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.

August 14, 2007

FRANKLIN CREDIT MANAGEMENT CORPORATION

By: /s/ ALEXANDER GORDON JARDINU

Alexander Gordon Jardin
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>U/s/ ALEXANDER GORDON JARDIN</u>	Chief Executive Officer	August 14, 2007
Alexander Gordon Jardin (Principal Executive Officer)		
<u>U/s/ PAUL D. COLASONOU</u>	Executive Vice President U and Chief Financial Officer	August 14, 2007 U
Paul D. Colasono (Principal Financial Officer)		

51
