



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Corporate Decision #97-109
December 1997

December 16, 1997

Mr. Gary A. Lax, P.C.
Silver, Freedman & Taff, L.L.P.
1100 New York Avenue, N.W.
Washington, D.C. 20005-3934

Re: Application of Franklin Bank, National Association, Southfield, Michigan to establish an operating subsidiary
Application Control Number: 97-CE-08-0040

Dear Mr. Lax:

This is in response to your operating subsidiary application filed on behalf of Franklin Bank, National Association (the "bank"). The bank proposes to establish an operating subsidiary, Franklin Finance Corporation ("FFC"), to hold mortgage assets. FFC will issue preferred stock in an underwritten public offering and will elect to be taxed as a real estate investment trust ("REIT"). The activities of FFC will be conducted at the main office of the Bank in Southfield, Michigan.

Capitalization

FFC will be incorporated under the laws of the State of Michigan and will qualify to be taxed as a REIT under Section 856(c)(6)(B) of the Internal Revenue Code of 1986, as amended. The Bank will capitalize FFC with an investment of approximately \$18 million. In exchange for this investment, the Bank will own one hundred percent of FFC's voting common stock.

FFC will also sell, in a one-time offering, non-cumulative, exchangeable preferred stock in an amount equal to \$18 million to outside investors. The preferred stock will have no voting rights except in matters that affect the rights and preferences of the preferred shareholders or when dividends have not been paid for four quarterly periods. The preferred stock will be automatically exchanged into non-cumulative perpetual preferred stock of the Bank in the event that the OCC directs the Bank in writing to make the conversion because (i) the Bank is undercapitalized under the prompt corrective action regulations, 12 C.F.R. § 6.4(b), (ii) the Bank is placed into conservatorship or receivership, or (iii) the OCC, in its sole discretion, anticipates the Bank becoming undercapitalized in the near term. FFC has the ability to redeem its preferred stock after five years from the issuance date subject to OCC approval, if necessary.

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Description of Activity

FFC's principal activity will be to acquire and hold (I) conforming and non-conforming residential mortgage loans, (ii) commercial mortgage loans, and (iii) mortgage securities representing interests in or obligations backed by pools of single-family residential, multi-family and commercial real estate properties located throughout the United States. FFC will use proceeds from the sale of common and preferred stock to purchase residential and commercial mortgage loans from the Bank.

Conclusion

We conclude that the subsidiary's proposed activities are authorized under 12 U.S.C. §§ 24 (Seventh) and 371. Accordingly, the Bank is hereby approved to establish the subsidiary. The Bank is also approved to include the REIT preferred stock in its tier 1 capital in an amount not to exceed 25 percent of the bank's tier 1 capital, including the preferred stock. The OCC reserves the right to exclude this proposed issuance or any future issuance if terms are revised, if the preferred stock otherwise ceases to comply with set standards, or if it ceases to provide meaningful capital support.

Please be advised that this approval is based upon the representations made on behalf of the bank in the application. If you have any questions concerning this letter, please contact National Bank Examiner Travis W. Wilbert at (312) 360-8866 or me at (202) 874-5060.

Sincerely,

/s/

Nancy Cody
National Bank Examiner
Bank Organization and Structure