

**CHARTER  
OF THE  
COMPENSATION COMMITTEE  
OF THE  
BOARD OF DIRECTORS OF FRANKLIN BANK CORP.**

**I. AUTHORITY AND COMPOSITION**

The Committee is established pursuant to Section 2.11 of the Bylaws of Franklin Bank Corp. (the "Corporation"). Committee members are appointed annually by the Board on the recommendation of the Nominating and Corporate Governance Committee, and may be replaced by the Board. The Committee must consist of at least three Directors, each of whom shall meet the independence requirements of the NASDAQ (subject to any applicable transition periods permitted under the NASDAQ requirements) and any standards of independence as may be prescribed for purposes of any federal securities, tax or other laws relating to the Committee's duties and responsibilities, including Section 162(m) of the Internal Revenue Code. The Committee Chairman shall be appointed by the Board.

The Committee may also appoint a Secretary, who need not be a Director, and may delegate to its Chairman such power and authority as the Committee deems to be appropriate, except such powers and authorities required by law to be exercised by the whole Committee or by a subcommittee of at least two members.

**II. PURPOSES OF THE COMMITTEE**

The Committee is appointed to discharge the Board's responsibilities relating to compensation of the Corporation's directors and executive officers. The Committee has overall responsibility for evaluating and approving the director and executive officer compensation plans, policies and programs of the Corporation.

The Committee is also responsible for producing the annual report on executive compensation required to be included in the Corporation's proxy statement pursuant to applicable federal securities rules and regulations.

As part of this process, the Committee will regularly evaluate the Compensation Philosophy that underlies the Committee's compensation practices and programs.

**III. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

*The following activities are set forth as a guide with the understanding that the Committee may diverge from this guide as it considers appropriate, subject to compliance with applicable NASDAQ, federal securities, tax and other legal and self-regulatory requirements.*

- A. The Committee shall annually review and approve corporate goals and objectives relevant to Chief Executive Officer compensation, evaluate the Chief Executive Officer's performance in light of those goals and objectives, and set the Chief Executive Officer's

compensation level based on this evaluation. In determining the long-term incentive component of Chief Executive Officer compensation, the Committee will consider appropriate factors, such as the Corporation's performance and relative shareholder return, the value of similar incentive grants or awards to chief executive officers at comparable companies, and the grants or awards given to the Chief Executive Officer in past years.

- B. The Committee shall periodically review and approve the compensation of the Corporation's other executive officers, taking into account peer group practices and other appropriate factors, such as corporate and individual performance and historical compensation practices for such officers. The Committee shall be entitled to consider the recommendations of the Chief Executive Officer in connection with the foregoing. The Committee will also provide general oversight of the Corporation's compensation and benefits plans, policies and programs that pertain to employees other than executive officers.
- C. The Committee shall review with the Chief Executive Officer and any other officer or member of management, as appropriate, the material criteria used by the Chief Executive Officer and management in evaluating employee performance throughout the organization and in establishing appropriate compensation, retention, incentive, severance and benefit policies and programs.
- D. The Committee shall have the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of Chief Executive Officer or executive compensation and shall have sole authority to approve the consultant's fees and other retention terms.
- E. The Committee shall periodically review and make recommendations to the Board with respect to incentive-compensation plans and equity-based plans, including but not limited to the Franklin Bank Corp. 2004 Long-Term Incentive Plan, and shall periodically review and make recommendations to the Board with respect to the adoption of or material changes in material employee benefit, bonus, severance and other compensation plans of the Corporation. As appropriate in connection with this process, the Committee shall seek appropriate assurances from internal or external advisors that all compensation and perquisites are appropriate, legally permissible and, where required, properly disclosed to the Corporation's stockholders.
- F. The Committee shall review any plans, policies or agreements relating to loans to any employees of the Corporation. This review shall include an assessment regarding legal compliance as well as an evaluation of the benefits and risks to the Corporation of maintaining such loans or programs.
- G. The Committee shall review and assess on a periodic basis the Corporation's compliance with laws and regulations relating to compensation and employee benefits, ERISA, labor laws, employment discrimination and other human resources matters.

- H. The Committee shall review and assess on a periodic basis the Corporation's guidelines regarding employee stock ownership and the Corporation's policies and procedures governing compliance with applicable laws relating to employee ownership of securities of the Corporation.
- I. The Committee shall review and assess on a periodic basis the Corporation's policies and procedures relating to all 401(k) plans or similar plans maintained by the Corporation to purchase, sell or otherwise acquire or transfer any interest in the equity of the Corporation.
- J. The Committee shall perform such duties and responsibilities as may be assigned to the Committee under the terms of any executive compensation plan.

**The Committee shall:**

- (a) Report regularly to the Board on its activities;
- (b) Maintain minutes of its meetings and records relating to those meetings and the Committee's activities;
- (c) Have authority to obtain, at the expense of the Corporation, advice and assistance from internal or external legal, accounting or other advisors, however, no single member of the Committee may engage an adviser or consultant;
- (d) Form and delegate authority to subcommittees of one or more Committee members when desired and appropriate;
- (e) Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter; and
- (f) Annually review the Committee's own performance.

**IV. GENERAL**

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- (g) One or more officers or employees of the Corporation whom the Committee member reasonably believes to be reliable and competent in the matters presented;
- (h) Counsel, independent auditors, or other persons as to matters which the Committee member reasonably believes to be within the professional or expert competence of such person; and
- (i) Other committees of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.