

ACA CAPITAL HOLDINGS, INC.
COMPENSATION COMMITTEE CHARTER

Purpose

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of ACA Capital Holdings, Inc. (the “Company”) shall have responsibility for matters relating to compensation of the Company’s officers and employees as set forth herein and shall evaluate, approve and administer the Company’s incentive compensation and equity-based plans, policies and programs. In accordance with applicable rules and regulations, the Committee also shall produce an annual report on executive compensation for inclusion in the Company’s annual proxy statement. The Committee shall review and monitor compensation arrangements generally so that the Company continues to retain and attract high-quality leadership.

Committee Membership

The Committee shall consist of no fewer than three members of the Board. Members of the Compensation Committee shall be appointed by the Board but shall not exceed five members of the Board, provided, that at all times at least one member of the Committee shall be a member of the Board who was nominated by and is a representative of BSMB/ACA LLC. Each member of the Committee shall be: (a) “independent” as that term is defined by the listing standards of the New York Stock Exchange (“NYSE”), (b) a “non-employee director” within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and (c) an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The members of the Committee shall be appointed by the Board. One member of the Committee shall be designated chairperson of the Committee. Any vacancy of the Committee shall be filled by a majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. Members may be removed at any time upon the determination of the Board.

Procedure and Meetings

The Committee may fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter. The Committee shall meet as provided by any rules it may adopt and as often as it deems appropriate, but not less than once annually. The Committee may hold special meetings as circumstances require. Meetings of the Committee shall be called by the chairperson of the Committee. The chairperson will preside at each meeting of the Committee and, in consultation with the other members of the Committee, set the agenda of items to be addressed at each meeting. A majority of the members of the Committee shall constitute a quorum for the transaction of business. The act of a majority of the Committee members present at a meeting at which a quorum is present shall be the act of the Committee.

Committee members may attend meetings in person, by conference call or through other means by which each member may hear and be heard by each other member, and the Committee may also act by unanimous written consent. At the discretion of the Committee, other members of the Board and any officer or employee of the Company may be invited to attend and participate in meetings of the Committee. Minutes shall be kept for each meeting of the Committee. The

chairperson shall be responsible for reporting to the Board at its next regularly scheduled meeting following a meeting of the Committee.

Committee Powers, Authority, Duties and Responsibilities

The Committee is granted the authority and is required to perform each of the specific duties enumerated below:

1. *Compensation Philosophy.* The Committee shall establish and annually review a total compensation philosophy and policy which fairly rewards the Company's Chief Executive Officer (the "CEO") and other executive officers of the Company reporting to the CEO (the "Executives") for performance benefiting the Company's stockholders and which is designed to attract and retain the executive resources necessary to successfully lead and manage the Company. The Committee shall have the authority to undertake studies and do such other acts as the Committee may deem appropriate to further the Company's existing compensation structure, philosophy and policies.
2. *CEO Compensation.* The Committee shall annually review and approve corporate goals and objectives relevant to compensation of the CEO, evaluate the CEO's performance in light of those goals and objectives and have the sole authority to determine and approve the CEO's compensation levels based on this evaluation and in accordance with any applicable employment agreement, including without limitation (a) annual base salary amount, (b) annual incentive compensation, (c) long-term incentive compensation, (d) employment, severance and change-in-control agreements/provisions, if any, and (e) any special or supplemental benefits. In determining the long-term incentive component of CEO compensation, the Committee shall consider, among other things, the Company's performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies and the awards given to the CEO in past years.
3. *Executive Compensation.* The Committee shall annually review and have the authority to approve the CEO's compensation recommendations for the Executives including without limitation (a) annual base salary amount, (b) annual incentive compensation, (c) long-term incentive compensation, (d) employment, severance and change-in-control agreements/provisions, if any, and (e) any special or supplemental benefits, each in light of the compensation philosophy and policies established by the Committee. The Committee shall also annually review and approve each Executive's annual bonus payment, as calculated in accordance with each such Executive's employment agreement, as applicable.
4. *Incentive Compensation Plans and Equity-Based Plans.* The Committee shall review, approve and administer the Company's incentive compensation plans and equity-based plans, including, but not limited to, (a) approving option grants and restricted unit or other awards, (b) interpreting the plans, (c) determining rules and regulations relating to the plans, (d) modifying or canceling existing grants or awards, and (e) imposing limitations, restrictions and conditions upon any grant or award as the Committee deems necessary or advisable. The Committee shall advise the CEO on general compensation policies for non-Executives, including, but not limited to, acceptable ranges of salaries and target awards under the Company's incentive compensation and equity-based plans.

5. *Independent Consultants and Advisors.* The Committee shall have the authority to obtain advice and assistance from internal and external legal, accounting and other advisors (including compensation consultants or experts). Notwithstanding the foregoing, the Committee shall retain and terminate any compensation consultant or expert to be used to assist in the evaluation of compensation and have the sole authority to approve related fees and other retention terms.
6. *Delegation.* The Committee shall have the authority to form, and delegate authority and responsibilities to, subcommittees when it deems appropriate. Any such subcommittee shall report any actions taken by it to the whole Committee at its next regularly scheduled meeting. The Committee shall periodically review any such delegations and may revoke any such delegation at any time.
7. *SEC Reporting.* The Committee shall comply with the compensation reporting requirements of the Securities and Exchange Commission (the “SEC”), including without limitation the Committee’s preparation of an annual report on executive compensation for inclusion in the Company’s Annual Proxy Statement in accordance with the applicable rules and regulations of the SEC.
8. *Actions with Respect to Charter.* The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. A copy of this Charter will be publicly disclosed as required by applicable SEC and NYSE rules and regulations.
9. *Performance Evaluation.* The Committee shall conduct an annual evaluation of its own performance and report such results to the Board. The Committee shall determine the format of its own self-evaluation.
10. *Other Duties.* The Committee shall have such other authority and responsibilities as may be assigned to it from time to time by the Board.

Revised: May 10, 2006