

Charter of the Audit Committee of the Board of Directors Monarch Community Bancorp, Inc.

I. Audit Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities in accordance with applicable laws and regulations. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Monarch Community Bancorp, Inc.'s (the "Company") its subsidiary, Monarch Community Bank's (the "Bank") financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.
- Monitor the independence and performance of the Company's and the Bank's independent auditors and internal auditing function.
- Provide an avenue of communication among the independent auditors, management, the internal auditing firm, and the Board of Directors.
- Provide a mechanism for receiving and processing complaints or concerns about accounting, internal accounting controls and auditing matters.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as any officer or employee, of the Company and the Bank, as well as any contractor, vendor, consultant or advisor engaged by the Company or the Bank.

II. Audit Committee Composition and Meetings

Audit Committee members shall meet the requirements of the Nasdaq Small Cap Market, Securities and Exchange Commission Regulations, and Office of Financial and Insurance Regulation. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors as that term is defined in applicable regulation, free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. At least one member of the Committee shall have financial management experience or background, such as past employment experience in finance or accounting, professional certification in accounting, or any other comparable experience or background, including having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. At least one member may be designated a "financial expert" in accordance with Section 407 of the Sarbanes-Oxley Act and the regulations adopted there under.

Audit Committee members shall be appointed by the Board. A Bank Officer may be designated to attend Committee meetings but will have no voting authority. If an audit committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee should conduct executive sessions at least annually with management, the Internal Auditor, and the independent auditors. The committee may also discuss any matters

that the Committee or each of these groups believe should be discussed, and may conduct sessions with anyone else they desire.

III. Audit Committee Responsibilities and Duties

A. Review Procedures

1. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval.
2. Review the Company's annual audited financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments.
3. In consultation with management, the independent auditors, and the internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditors with management's responses.
4. Review with management the Company's quarterly financial results before it is filed with the Securities and Exchange Commission (SEC) or other regulators via telephone or formal meeting. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 90. The Chair of the Committee may represent the entire Audit Committee for purposes of this review.
5. Review with management the policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or independent auditors.
6. Review with the independent auditors and the Internal Auditor, the adequacy of the Company's internal controls including computerized information system controls and security, and any related findings and recommendations of the independent auditors and internal audit services together with management's responses thereto.
7. Review with management and the independent auditor the effect of any regulatory and accounting initiatives, as well as off-balance sheet structures, if any.
8. Review the Company's Code of Conduct with the Internal Auditor and General Counsel to see that it is adequate and up-to-date, and review the results of the monitoring of compliance with the Code.

B. Independent Auditors

1. The independent auditors shall report directly to the Audit Committee. The Audit Committee shall review the independence and performance of the auditors and annually appoint the independent auditors or approve any discharge of auditors when circumstances warrant. The independent auditors are prohibited from performing any of the following services for the Company:
 - Bookkeeping or other services related to the accounting records or financial statements of the Company;
 - Financial information systems design and implementation;

- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services'
- Internal audit outsourcing services;
- Management or human resources functions;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the Public Company Accounting oversight Board determines, by regulation is impermissible.

The committee must pre-approve all permitted non-audit services, including tax services, to be performed by the independent auditors, before services are rendered. The Committee will also use a request for proposal (RFP) process for engaging auditors other than our independent auditors and for engaging auditors or other professionals for non-audit or other services that the auditor cannot perform.

C. Internal Audit and Legal Compliance

1. Review the budget, plan, changes in plan, activities, organizational structure, qualifications, and staffing of the internal audit function, as needed.
2. Appoint an internal audit firm as deemed necessary.
3. Review significant reports prepared by the internal audit firm together with management's response and follow-up to these reports.
4. On at least an annual basis, review with the Company's counsel, any legal matters that could have a material impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries and/or reports received from regulators or governmental agencies.
5. Review and concur in the appointment, replacement, reassignment or dismissal of the Company's internal auditor by holding special meetings as may be necessary.
6. Report to the full Board of Directors on the performance of the internal auditor including the effectiveness of the audit function.
7. At each meeting review with management and the internal auditor:
 - Significant findings on internal audits during the year and management's responses thereto.
 - Any difficulties the internal auditor encountered in the course of their audits, including any restrictions on the scope of their work or access to required information
 - Any changes required in the scope of their internal audit

D. Engagement of Advisors

The Committee shall have the authority to engage independent counsel and other advisors it deems necessary in order to fulfill its duties under this Charter and applicable law and regulation.

E. Complaint Procedures

The Committee shall establish and oversee a confidential and anonymous process and procedures for the receipt, retention, and disposition of all employee and non-employee complaints or concerns about accounting, internal accounting controls and auditing matters.

F. Other Audit Committee Responsibilities

1. Annually prepare a report to shareholders as required by the Securities Exchange Commission. The report should be included in the Company's annual proxy statement.
2. Perform any other activities consistent with this Charter, the Company's and the Bank's by-laws, and governing law and regulation, as the Committee of the Board deems necessary or appropriate.
3. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
4. Review and approve all related party transactions required to be disclosed under item 404(a) of Regulation S-K.
5. Oversee the preparation of an annual report of the Audit Committee as required by the rules of the SEC and the annual affirmation required by the appropriate listing exchange, if necessary. When required by SEC rules, included in the annual proxy statement for the Company a report of the Committee in accordance with the Proxy Rules promulgated by the SEC.