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FREMONT GENERAL CORP
Form 10-Q
November 09, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

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 001-08007

FREMONT GENERAL CORPORATION
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

95-2815260
(I.R.S. Employer
Identification No.)

2425 Olympic Boulevard
Santa Monica, California 90404
(Address of principal executive offices)
(Zip Code)

(310) 315-5500
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes

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of common stock:

CLASS	SHARES OUTSTANDING
Common Stock, \$1.00 par value	OCTOBER 31, 2005 77,875,000

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FREMONT GENERAL CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

	PAGE NO.

Item 1. Financial Statements	
Consolidated Balance Sheets September 30, 2005 (Unaudited) and December 31, 2004	3
Consolidated Statements of Income Three and Nine Months Ended September 30, 2005 and 2004 (Unaudited)	4
Consolidated Statements of Changes in Stockholders' Equity September 30, 2005 and 2004 (Unaudited)	5
Consolidated Statements of Cash Flows Nine Months Ended September 30, 2005 and 2004 (Unaudited).	6
Consolidated Statements of Comprehensive Income Three and Nine Months Ended September 30, 2005 and 2004 (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited).....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosures About Market Risk ..	59
Item 4. Controls and Procedures	60

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	61
Item 2. Unregistered Sales of Equity Securities and Use of	

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Proceeds	62
Item 3 -5. Not applicable.	
Item 6. Exhibits.....	63
Signatures	65

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30,
2005

(UNAUDITED)
(THOUSANDS OF

ASSETS

Cash and cash equivalents	\$ 764,920
Investment securities classified as available for sale at fair value	941
Federal Home Loan Bank ("FHLB") stock at cost	131,553
Loans held for sale - net	5,767,480
Loans held for investment - net	3,960,383
Mortgage servicing rights - net	28,005
Residual interests in securitized loans at fair value	28,221
Accrued interest receivable	36,216
Real estate owned	27,936
Premises and equipment - net	61,073
Deferred income taxes	116,952
Other assets	77,736

TOTAL ASSETS	\$ 11,001,416
	=====

LIABILITIES

Deposits:	
Savings accounts	\$ 1,174,900
Money market deposit accounts	438,732
Certificates of deposit	6,827,080

	8,440,712
Warehouse lines of credit	-
Federal Home Loan Bank advances	639,000
Senior Notes due 2009	180,368
Liquid Yield Option Notes due 2013 ("LYONs")	-
Junior Subordinated Debentures	103,093
Other liabilities	342,103

TOTAL LIABILITIES	9,705,276
Commitments and contingencies	-

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STOCKHOLDERS' EQUITY

Preferred stock, par value \$.01 per share -- Authorized: 2,000,000 shares; none issued	-
Common stock, par value \$1 per share -- Authorized: 150,000,000 shares; Issued and outstanding: (2005 - 77,875,000 and 2004 - 77,241,000)	77,875
Additional paid-in capital	342,245
Retained earnings	919,327
Deferred compensation	(51,303)
Accumulated other comprehensive income	7,996

TOTAL STOCKHOLDERS' EQUITY	1,296,140

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,001,416
	=====

The accompanying notes are an integral part of these statements.

3

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
	-----	-----
	(THOUSANDS OF DOLLARS)	
INTEREST INCOME:		
Interest and fee income on loans:		
Residential	\$ 115,007	\$ 86,223
Commercial	81,242	72,405
Other	(342)	111
	-----	-----
	195,907	158,739
Interest income - other	12,107	4,165
	-----	-----
	208,014	162,904
INTEREST EXPENSE:		
Deposits	70,265	38,037
FHLB advances	10,411	4,787
Warehouse lines of credit	929	501
Senior Notes	3,650	3,691
Junior Subordinated Debentures	2,320	2,320
Other	91	64

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	-----	-----
	87,666	49,400
Net interest income	120,348	113,504
Provision for loan losses	(4,071)	(10,309)
	-----	-----
Net interest income after provision for loan losses	124,419	123,813
NON-INTEREST INCOME:		
Net gain on whole loan sales and securitizations		
of residential real estate loans	116,044	89,366
Loan servicing income	20,155	11,712
Mortgage servicing rights amortization and impairment provision ..	(6,588)	(3,126)
Impairment on residual assets	-	-
Other	4,602	2,961
	-----	-----
	134,213	100,913
NON-INTEREST EXPENSE:		
Compensation and related	61,851	50,950
Occupancy	7,412	4,404
Other	33,334	24,474
	-----	-----
	102,597	79,828
INCOME BEFORE INCOME TAXES	156,035	144,898
INCOME TAX EXPENSE	63,470	59,778
	-----	-----
NET INCOME	\$ 92,565	\$ 85,120
	=====	=====
EARNINGS PER SHARE:		
Basic	\$ 1.27	\$ 1.18
Diluted	1.23	1.15
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.08	\$ 0.06

The accompanying notes are an integral part of these statements.

4

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	DEFERRED COMPENSATI
	-----	-----	-----	-----
	(THOUSANDS OF DOLLARS)			
BALANCE AT DECEMBER 31, 2003	\$ 75,990	\$ 296,000	\$ 328,044	\$ (35,8
Net income	-	-	263,161	

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Cash dividends declared	-	-	(12,892)	
Conversion of LYONS	3	47	-	
Stock options exercised	792	14,828	-	
Retirement of common stock	(138)	(698)	-	8
Shares issued, acquired or allocated for employee benefit plans	418	8,706	-	(36,9
Amortization of restricted stock	-	-	-	10,4
Shares allocated to ESOP	-	4,829	-	15,2
Other adjustments	-	2,110	-	(1,0
Net change in unrealized gain on investments and residual interests, net of deferred taxes	-	-	-	
BALANCE AT SEPTEMBER 30, 2004	<u>\$ 77,065</u>	<u>\$ 325,822</u>	<u>\$ 578,313</u>	<u>\$ (47,3</u>
BALANCE AT DECEMBER 31, 2004	\$ 77,241	\$ 330,328	\$ 663,580	\$ (58,9
Net income	-	-	273,437	
Cash dividends declared	-	-	(17,690)	
Conversion of LYONS	35	560	-	
Retirement of common stock	(95)	(936)	-	1,0
Shares issued, acquired or allocated for employee benefit plans	694	14,994	-	(32,4
Amortization of restricted stock	-	-	-	14,5
Shares allocated to ESOP	-	(1,368)	-	25,8
Change in cost of common stock held in trust	-	-	-	(5,0
Other adjustments	-	(1,333)	-	3,7
Net change in unrealized gain on investments and residual interests, net of deferred taxes	-	-	-	
BALANCE AT SEPTEMBER 30, 2005	<u>\$ 77,875</u>	<u>\$ 342,245</u>	<u>\$ 919,327</u>	<u>\$ (51,3</u>

The accompanying notes are an integral part of these statements.

5

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTH SEPTEMBER
	----- 2005 ----- (THOUSANDS)
OPERATING ACTIVITIES	
Net income	\$ 273,437
Adjustments to reconcile net income to net cash provided by	

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(used in) operating activities:	
Provision for loan losses	(7,251)
Provision for premium recapture, repurchase and valuation reserves of residential real estate loans held for sale	40,744
Premium refunds	(18,537)
Increase in mortgage servicing rights	(26,302)
Increase in residual interests in securitized loans	(8,052)
Cash from residual interests in securitized loans	13,362
Deferred income tax expense	34,189
Depreciation, amortization and impairment of retained interests	34,307
Compensation expense (income) related to deferred compensation obligation	(4,070)
(Increase) decrease in accrued interest	(2,095)
Increase in other assets	(9,995)
Increase (decrease) in federal and state income taxes payable	(43,935)
Increase in accrued Employee Stock Ownership Plan	19,658
Decrease in accrued incentive compensation	(27,888)
Increase in accounts payable and other liabilities	25,180

NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE LOANS HELD FOR SALE ACTIVITY	292,752
Originations of residential real estate loans held for sale	(26,616,133)
Sale and securitization of residential real estate loans held for sale ..	26,086,153
Loan payments received for residential real estate loans held for sale ..	210,639

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(26,589)
INVESTING ACTIVITIES	
Originations and advances funded for loans held for investment	(2,630,208)
Payments received from and sales of loans held for investment	1,991,056
Decrease in investment securities available for sale	284
Net purchases of FHLB stock	(54,426)
Purchases of premises and equipment	(19,266)

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(712,560)
FINANCING ACTIVITIES	
Deposits accepted, net of repayments	893,732
FHLB advances, net of repayments	(261,000)
Extinguishment of LYONs and Senior Notes	(30)
Dividends paid	(16,867)
Stock options exercised	-
Increase in deferred compensation plans	(16,741)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	599,094
Increase (decrease) in cash and cash equivalents	(140,055)
Cash and cash equivalents at beginning of period	904,975

Cash and cash equivalents at end of period	\$ 764,920
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The accompanying notes are an integral part of these statements.

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
	(THOUSAND)	
Net income	\$ 92,565	\$ 85,120
Other comprehensive income:		
Unrealized gains (losses) during the period:		
Residual interests in securitized loans	6,346	4,277
Investment securities	(2)	7
	-----	-----
	6,344	4,284
Less income tax expense	2,538	1,714
	-----	-----
Other comprehensive net income	3,806	2,570
	-----	-----
TOTAL COMPREHENSIVE NET INCOME	\$ 96,371	\$ 87,690
	=====	=====

The accompanying notes are an integral part of these statements.

7

FREMONT GENERAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Fremont General Corporation ("Fremont General") and its subsidiaries (together the "Company"), including the Company's principal operating subsidiary, Fremont Investment & Loan ("FIL"), a California chartered industrial bank which is engaged in commercial and residential real estate lending on a nationwide basis. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany balances and transactions have been eliminated in consolidation.

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The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the interim financial statements have been included. The operating results for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2: NEW ACCOUNTING STANDARDS

In March 2005, the United States Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") to provide public companies additional guidance in applying the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ("SFAS No. 123R"). SAB 107 expresses the SEC staff's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides further information regarding the valuation of share-based payment arrangements for public companies. Subsequent to issuing SAB 107, in April 2005, the SEC adopted a new rule that allows companies to implement SFAS No. 123R at the beginning of their next fiscal year. Prior to the adoption of this new rule, calendar year-end companies would have been required to implement SFAS No. 123R as of the beginning of the third quarter of 2005. The Company does not believe that the adoption of SFAS No. 123R or the application of the guidance in SAB 107 will have a significant

8

impact on the Company's financial position or results of operations.

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FIN 46(R)-5: Implicit Variable Interests under FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities ("FIN 46(R)-5"). This FSP was issued to address whether a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity ("VIE") or potential VIE when specific conditions exist. FIN 46(R)-5 also provides additional guidance defining implicit variable interests as implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. The Company adopted FIN 46(R)-5 effective July 1, 2005 without a significant impact on the Company's financial position or results of operations.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as of the dates indicated, are summarized in the following table:

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SEPTEMBER 30,
2005

(THOUSANDS OF

Cash on hand	\$	264
FHLB shareholder transaction account		505,797
Federal Reserve account		2,984
Short-term money market fund		101,536
Market interest rate account		24
Non-interest bearing deposits in other financial institutions		154,315

Cash and cash equivalents	\$	764,920
		=====

The FHLB shareholder transaction account represents a short-term interest-bearing transaction account with the Federal Home Loan Bank of San Francisco. The Company's cash and cash equivalent balances were unrestricted as of September 30, 2005 and December 31, 2004.

9

NOTE 4: LOANS HELD FOR SALE

Loans held for sale consist solely of residential real estate loans (primarily first trust deeds, but also second trust deeds) which are aggregated prior to their sale and are carried at the lower of aggregate cost, or estimated fair value. Estimated fair values are based upon current secondary market prices for loans with similar coupons, maturities and credit quality.

The Company's residential real estate loans have loan terms for up to thirty years and are typically secured by first deeds of trust on single-family residences. The Company's residential real estate loans held for sale typically have a significant concentration (generally 80% or higher) of "hybrid" loans which have a fixed rate of interest for an initial period (generally two years) after origination, after which the interest rate is adjusted to a rate equal to the sum of six-month LIBOR and a margin as set forth in the mortgage note. The interest rate then adjusts at each six-month interval thereafter, subject to various initial, periodic and lifetime rate caps and floors. The loans are generally made to borrowers who do not satisfy all of the credit, documentation and other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac, and are commonly referred to as "sub-prime" or "non-prime" loans.

A valuation reserve is maintained for certain non-performing loans and other loans held for sale based upon the Company's estimate of inherent losses. Provisions for the valuation reserve are charged against gain on sale of loans. The following table details the loans held for sale as of the dates indicated:

SEPTEMBER 30,
2005

(THOUSANDS OF

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Loan principal balance:	
1st trust deeds	\$ 5,119,708
2nd trust deeds	617,822

	5,737,530
Basis adjustment for fair value hedge accounting	-
Net deferred direct origination costs	65,298

	5,802,828
Less: Valuation reserve	(35,348)

Loans held for sale - net	\$ 5,767,480
	=====
Loans held for sale on non-accrual status	\$ 15,081
	=====

10

Since most of the loans that are held for sale are sold within 60 days, the amount of loans held for sale that are classified as non-accrual or become real estate owned, is generally small. Loans held for sale may include loans repurchased from previous whole loan sale transactions and securitizations. In the ordinary course of business, as the loans held for sale are sold, the Company makes standard industry representations and warranties about the loans. The Company may have to subsequently repurchase certain loans due to defects that occurred in the origination of the loan. Such defects are categorized as documentation errors, underwriting errors, or fraud. In addition, the Company is generally required to repurchase loans that experience first payment defaults (and in limited cases, second payment defaults). If there are no such defects or early payment defaults, the Company has no commitment to repurchase loans sold. During the third quarter of 2005, the Company repurchased a total of \$126.7 million in loans, as compared to \$75.9 million in the third quarter of 2004. The increase in loans repurchased is primarily a result of an increase in loan origination and sales volumes. The Company maintains a reserve for the effect of loans estimated to be repurchased from previously completed loan sales; this reserve is included in other liabilities and totaled \$23.7 million and \$4.8 million as of September 30, 2005 and December 31, 2004, respectively. During the third quarter of 2005, the Company updated its loss estimates and stratifications for both of its valuation and repurchase reserves; the net result included a shifting of a certain amount of the valuation reserve into the repurchase reserve, thus increasing the repurchase reserve during the third quarter of 2005. Provisions for the repurchase reserve are charged against gain on sale of loans.

The Company also maintains a reserve for premium recapture that represents the estimate of potential refunds of premiums received on previously completed loan sales (due to early loan prepayments or for certain loans repurchased from prior sales) that may occur under the provisions of the various agreements entered into for the sale of loans held for sale; this reserve totaled \$10.6 million and \$7.5 million as of September 30, 2005 and December 31, 2004, respectively, and is included in other liabilities. Provisions for the premium recapture reserve are charged against gain on sale of loans.

NOTE 5: LOANS HELD FOR INVESTMENT

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Loans held for investment consist of the Company's commercial real estate loans. Commercial real estate loans, which are primarily variable rate (generally based upon six-month LIBOR and a margin), represent loans secured primarily by first mortgages on properties such as multi-family (condominium), office, retail, industrial, land development, mixed-use and lodging. The commercial real estate loans are comprised of permanent, bridge and construction loans of relatively short duration (rarely more than five years in length of term and typically shorter, such as two to three years).

11

As of September 30, 2005, the Company had \$2.84 billion in unfunded commitments for existing loans and \$685.1 million in unfunded commitments for loans not yet booked, as compared to \$1.84 billion and \$218.8 million, respectively, as of December 31, 2004. The increase in unfunded loan commitments is a result of an increase in loan commitments originated during 2005 but with lower average levels of fundings as a percentage of the total loan commitment (primarily from transactions involving condominiums as the underlying property type). Due to the variability in the timing of the funding of these unfunded commitments, and the extent to which they are ultimately funded, these amounts should not generally be used as a basis for predicting future outstanding loan balances.

Commercial real estate loans are reported net of participations to other financial institutions or investors in the amount of \$149.4 million and \$131.6 million as of September 30, 2005 and December 31, 2004, respectively. The Company's commercial real estate loans also include mezzanine loans (second mortgage loans, which are subordinate to the senior or first mortgage loans) in the amounts of \$8.5 million and \$48.3 million as of September 30, 2005 and December 31, 2004, respectively.

The Company currently does not carry any residential real estate loans held for investment as it has done in prior periods. The following tables further detail the net loans held for investment for the periods indicated:

12

	SEPTEMBER 30, 2005
	COMMERCIAL REAL ESTATE
	(THOUSANDS)
Loans outstanding	\$ 4,303,891
Participations sold	(149,434)
	4,154,457
Loans outstanding, net of participations sold	4,154,457
Unamortized deferred origination fees and costs	(41,603)
	4,112,854
Loans outstanding before allowance for loan losses	4,112,854
Allowance for loan losses	(158,654)
	\$ 3,954,200
Loans held for investment - net	\$ 3,954,200

	DECEMBER 31, 2005
	COMMERCIAL REAL ESTATE
	(THOUSANDS OF DOLLARS)
Loans outstanding	\$ 3,647,490
Participations sold	(131,635)
Loans outstanding, net of participations sold	3,515,855
Unamortized deferred origination fees and costs	(35,767)
Loans outstanding before allowance for loan losses	3,480,088
Allowance for loan losses	(171,471)
Loans held for investment - net	\$ 3,308,617

The following table sets forth information regarding the Company's commercial real estate loans on non-accrual status and restructured loans on accrual status. In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms (typically a reduction of the interest rate charged), the loan is classified as a restructured (accruing) loan if the loan is performing in accordance with the agreed upon modified loan terms and projected cash proceeds are deemed sufficient to repay both principal and interest. Restructured loans are presented as such in the period of restructure and the three subsequent quarters.

	SEPTEMBER 30, 2005
	(THOUSANDS OF DOLLARS)
Non-accrual commercial real estate loans held for investment	\$ 21,926
Restructured commercial real estate loans on accrual status	\$ 12,350

The Company employs a documented and systematic methodology in determining the adequacy of its allowance for loan losses, which assesses the risk of losses inherent in the portfolio, and represents the Company's estimate of probable inherent losses in the loan portfolio as of the date of the financial

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statements. The allowance for loan losses methodology incorporates management's judgment concerning the effect of recent economic events on portfolio performance, as well as concentration factors (such as property types, geographic regions and loan sizes). Activity in the allowance for loan losses is summarized in the following tables:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,
	2005	2004	2005
	(THOUSANDS OF DOLLARS)		
Beginning balance	\$ 159,956	\$ 214,726	\$ 171,525
Provision for loan losses	(4,071)	(10,309)	(7,251)
Charge-offs	-	(5,374)	(12,180)
Fair value adjustment (1)	-	(9,856)	-
Recoveries	2,828	435	6,619
Ending balance	<u>\$ 158,713</u>	<u>\$ 189,622</u>	<u>\$ 158,713</u>
Net charge-offs	<u>\$ 2,828</u>	<u>\$ (14,795)</u>	<u>\$ (5,561)</u>

In addition to its allowance for loan losses, the Company maintains an allowance for unfunded commercial real estate loan commitments on existing loans and, to a lesser degree, loans not yet funded; this allowance totaled \$12.2 million and \$7.1 million as of September 30, 2005 and December 31, 2004, respectively, and is included in other liabilities.

NOTE 6: REAL ESTATE OWNED

The Company's real estate owned ("REO") consists of property acquired through or in lieu of foreclosure on loans secured by real estate. REO is reported in the financial statements at the lower of cost or estimated realizable value (net of estimated costs to sell). REO consisted of the following types of property as of the periods indicated:

	SEPTEMBER 30, 2005
	(THOUSANDS OF DOLLARS)
Commercial real estate	\$ 24,712

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Residential real estate	3,224

Real estate owned	\$ 27,936
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NOTE 7: MORTGAGE SERVICING RIGHTS

At the time of securitization or sale of loans on a whole loan basis with servicing rights retained, the Company analyzes whether the benefits of servicing are greater than or less than adequate compensation and, as a result, records a mortgage servicing rights asset or liability ("MSR"), respectively. The estimated fair value of the Company's mortgage servicing rights at September 30, 2005 and December 31, 2004 was \$28.0 million and \$18.0 million, respectively. The following tables summarize the activity in the Company's mortgage servicing rights asset as of the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MO SEPTE
	2005	2004	2005
	(THOUSANDS OF DOLLARS)		
Beginning balance	\$ 24,525	\$ 15,209	\$ 20,044
Additions from securitization transactions	12,275	6,722	26,303
Amortization	(5,574)	(3,186)	(15,121)
	-----	-----	-----
Ending balance before valuation allowance	31,226	18,745	31,226
Valuation allowance			
Beginning balance	(2,207)	(2,477)	(2,043)
Provision for temporary impairment	(1,014)	60	(1,178)
	-----	-----	-----
Ending balance	(3,221)	(2,417)	(3,221)
	-----	-----	-----
Mortgage servicing rights - net	\$ 28,005	\$ 16,328	\$ 28,005
	=====	=====	=====

As servicer, the Company is required to make certain advances on specific loans it is servicing, to the extent such advances are deemed collectible by the Company from collections related to the individual loan. The total amount outstanding of such servicing advances was \$11.8 million and \$5.3 million at September 30, 2005 and December 31, 2004, respectively, and is included in other assets.

The fair value of the MSRs is derived from the net positive cash flows associated with the servicing agreements. The Company determines the fair value of the MSRs at the time of securitization and at each reporting date by the use of a cash flow model that incorporates prepayment speeds, discount rate and other key assumptions management believes are consistent with assumptions other major market

participants use in valuing the MSRs. The Company determined, as part of its

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on-going assessment of the assumptions used to value its MSRs, to increase the discount rate utilized to 15.0% during the first quarter of 2005. The key economic assumptions used in subsequently measuring the fair value of the Company's MSRs as of the periods indicated are as follows:

	SEPTEMBER 30, 2005 -----
Weighted-average life (years)	1.5
Weighted-average annual prepayment speed (CPR)	47.8%
Weighted-average annual discount rate	15.0%

NOTE 8: RESIDUAL INTERESTS IN SECURITIZED LOANS

Residual interests in loan securitizations are recorded as a result of the sale of residential real estate loans through a securitization transaction and the subsequent issuance of net interest margin securities ("NIMs") to monetize the residual interest from the original securitization transaction.

Residual interests represent the discounted expected future residual cash flows from the securitizations that inure to the Company's benefit subject to prepayment, net lifetime credit losses and other factors. The following tables summarize the activity of the Company's residual interests:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004

	(THOUSANDS)	
Beginning balance at fair value	\$ 16,784	\$ 12,139
Additions to residual interests	4,300	94
Interest accretion	4,262	856
Cash received	(3,470)	-
Fair value adjustment	6,345	4,276
Permanent impairment	-	-
	-----	-----
Residual interests in securitized loans at fair value	\$ 28,221	\$ 17,365
	=====	=====

Loans sold through securitization transactions are done so on a non-recourse basis to off-balance sheet qualified special purpose entities ("QSPEs"), except for representations and warranties customary within the mortgage banking industry. In a NIM transaction, the certificates representing the residual interest in certain excess cash flows from the original securitization transaction are transferred to a QSPE,

which issues interest-bearing securities. The net proceeds from the sale of these NIM securities, along with a residual interest certificate, represents the consideration received by the Company. The residual interest certificate retained from a NIM transaction is subordinate to the NIM securities issued until the NIM securities are paid in full. The residual interests retained from the NIM transactions are classified as "available-for-sale" securities and are measured at fair value; any unrealized gains or losses from adjustments to the estimated fair value, net of taxes, are reported as part of accumulated other comprehensive income, which is a separate component of stockholders' equity. In the original securitizations and NIM transactions, a two-tier structure is utilized in which the loans are first sold to a special purpose corporation (referred to as the Depositor), which then transfers the loans to the QSPE. The Company's only ownership interest from its securitization transactions is reflected in the retained residual interests from the NIM transactions of \$28.2 million as detailed above.

As of September 30, 2005, a total of \$4.85 billion in loan principal was outstanding from the Company's securitization transactions. The total amount of loan principal originally securitized in these transactions was \$7.38 billion.

The Company determines the estimated fair values of the residual interests retained from the NIM transactions by discounting the expected net cash flows to be received utilizing the cash-out method. The Company uses the forward LIBOR curve for estimating interest rates on the adjustable rate loans and the variable rate securities, and utilizes other assumptions (primarily for losses, prepayment speeds and delinquencies) that management believes are consistent with assumptions other major market participants would use to estimate the fair value of similar residual interests. The Company continually evaluates the various assumptions utilized in estimating the fair value of the retained residual interests and updates them as deemed necessary based upon the development of historical vintage data. Key economic assumptions used in subsequently measuring the fair value of the Company's residual interests as of the periods indicated are as follows:

	SEPTEMBER 30, 2005 -----
Weighted-average life (years)	1.5
Weighted-average annual prepayment speed (CPR)	47.3%
Weighted-average lifetime credit losses	4.5%
Weighted-average annual discount rate	20.0%

NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments in connection with its interest rate risk management activities. In accordance with its interest

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rate risk strategy, the Company currently utilizes a combination of forward sales commitments and Eurodollar futures contracts to hedge its residential real estate loans held for sale and a certain portion of its unfunded pipeline of interest rate lock commitments. These derivatives are intended to reduce the risk of adverse fair value changes in certain interest rate environments. The Company's forward sales commitments represent obligations to sell loans at a specific price and date in the future; therefore, the value of these commitments increase as interest rates increase. Short Eurodollar futures contracts are standardized exchange-traded contracts, the values of which are tied to spot Eurodollar rates at specified future dates. The value of these futures contracts increase when interest rates rise. Conversely, the value of the forward sales commitments and the short Eurodollar positions decrease when interest rates decrease, while the related loans are expected to increase in value. The values of the loans, the forward sales commitments and the Eurodollar positions may not move in corresponding amounts and time frames and may result in a negative or positive impact on earnings in any given period. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivatives and Hedging Activities, as amended and interpreted ("SFAS No. 133"), the derivative financial instruments are reported at their fair value.

At September 30, 2005, the Company's commitments to sell forward its residential real estate loans to third party investors in whole loan sales transactions were approximately \$3.68 billion at various rates and terms. The Company distinguishes commitments to sell forward loans in two categories, allocated and unallocated. At September 30, 2005, allocated and unallocated forward sale commitments notional amounts were \$2.58 billion and \$1.10 billion, respectively. Allocated forward sales commitments are contractual sales agreements whereby a specific pool of loans is agreed upon to be sold to specific buyers at a contractually agreed upon date and price. In accordance with SFAS No. 133, the Company generally designates and accounts for its allocated forward sales commitments as fair value hedges designated to specific pools of loans that have been contractually agreed upon for sale; however, as of September 30, 2005, no hedges were designated as such. Unallocated forward sales commitments are agreements that provide a fixed price on a pool of loans not yet specified. These commitments are treated as economic hedges (and are not currently designated as accounting hedges) and are classified as free-standing derivatives. Changes in the fair value of both the unallocated and allocated forward sales commitments are reported as a component of gain on sale of residential real estate loans and as either other assets or liabilities, as applicable.

At September 30, 2005, the Company had a pipeline of loans in process of approximately \$2.35 billion in new residential real estate loans. Because these loans are generally subject to the potential borrower accepting and meeting the conditions of the loan approval the Company estimates its effective net pipeline position at \$1.50 billion, as adjusted for loan fallout. The Company conditionally quotes interest rates to potential borrowers, which are then subject to adjustment by the Company if any such conditions are not satisfied. Since the Company generally funds the loans at the rates conditionally approved, the quotes are considered to constitute interest rate locks. These interest rate lock commitments, which generally are for 30 days, are treated as free-standing derivatives and are carried at their estimated fair value with any changes recorded as a component of gain on sale of residential real estate loans. Fair value is estimated based upon the change in the fair value of the underlying mortgage loans as adjusted for the probability of a certain amount of loans in the pipeline not funding within the terms of the initial rate lock. The change in fair value is measured from the date of the interest rate lock and,

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therefore, at the time of issuance, the value of the interest rate lock is zero.

The Company's Eurodollar futures contracts are currently treated as economic hedges and are not currently designated as accounting hedges and are classified as free-standing derivatives. As of September 30, 2005, the Company had in place short Eurodollar futures positions covering loan principal of \$1.99 billion and \$427.8 million for its loans held for sale and its unfunded loan pipeline, respectively. Eurodollar futures are utilized in an effort to offset the changes in value related to the loan inventory and pipeline without the necessity of restricting certain loan inventory or pipeline loans to a specific forward sale commitment. Eurodollar futures are carried at their fair value with any changes recorded as a component of gain on sale of residential real estate loans. Gains or losses on Eurodollar futures are recognized when such positions are closed out, typically when a forward sale commitment is entered into. The Company's Eurodollar futures contracts are collateralized by maintenance of a margin account which had a balance of \$2.8 million as of September 30, 2005.

The estimated fair values of the Company's derivatives were as follows (included in other assets or liabilities, as applicable, in the consolidated balance sheets) as of the periods indicated:

19

	SEPTEMBER 30, 2005 ----- (THOUSANDS OF
Forward sale commitments	\$ (156)
Eurodollar futures	5,813
Interest rate lock commitments	3,647

	\$ 9,304
	=====

NOTE 10: GAIN ON SALE AND SECURITIZATION OF RESIDENTIAL REAL ESTATE LOANS

The Company routinely sells and securitizes residential mortgage loans into the secondary market. Gains or losses are recognized at the date of settlement and when the Company has transferred control over the loans to either a transaction-specific securitization trust or to a third-party purchaser. The amount of gain or loss for loan sales or securitizations is based upon the difference between the net sales proceeds received, including any retained interests, and the allocated carrying amount of the loans (which includes the costs directly incurred with the origination of the loans, net of origination points and fees received, which are deferred and recognized when the loans are sold). The following tables present the detailed components of the net gain on whole loan sales and securitizations (net gain on sale):

THREE MONTHS ENDED
SEPTEMBER 30,

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	2005	2004
		(THOUSAND)
Whole loan sales of residential real estate loans	\$ 8,236,360	\$ 6,245,154
Securitizations of residential real estate loans	1,032,725	555,814
Total loan sales and securitizations - net of repurchases	\$ 9,269,085	\$ 6,800,968
Gross premium recognized on loan sales and securitizations	\$ 208,687	\$ 204,820
Net gain (loss) on derivative instruments	24,218	(6,552)
Direct costs of loan originations - net	(111,712)	(90,321)
Provision for premium recapture and reversal	(9,096)	(9,191)
Provision for valuation and repurchase reserves	112,097	98,756
	3,947	(9,390)
Net gain on sale	\$ 116,044	\$ 89,366

20

The net gain or (loss) on derivative instruments included in the net gain on sale of residential real estate loans consists of the following items:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
		(THOUSANDS)
Eurodollar futures:		
Change in fair value	\$ 5,250	\$ -
Net realized gain	16,084	-
Transaction expenses and other	(465)	-
	20,869	-
Change in fair value of:		
Interest rate lock commitments	(3,086)	(2,509)
Forward sales commitments	6,435	(1,658)
Interest rate cap contracts	-	(2,385)
Loans held for sale subject to fair value hedges	-	-
Net gain (loss) on derivative instruments	\$ 24,218	\$ (6,552)

NOTE 11: LOAN SERVICING INCOME

In addition to the securitized loans that it services, the Company also

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services loans sold to other financial institutions on an interim basis (until servicing is transferred to another party) and on a to maturity basis (servicing retained). The following tables present the components of loan servicing income for the Company:

21

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
	(THOUSANDS)	
Servicing fee income:		
Securitization transactions	\$ 6,108	\$ 3,249
Interim	9,807	6,261
Loans sold - servicing retained	897	672
Ancillary income (1):		
Securitization transactions	1,269	590
Interim	889	756
Loans sold - servicing retained	156	137
Other:		
Securitization transactions	906	47
Loans sold - servicing retained	123	-
Loan servicing income	<u>\$ 20,155</u>	<u>\$ 11,712</u>

NOTE 12: INCOME TAXES

The major components of income tax expense are summarized in the following tables:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
	(THOUSANDS)	
Federal:		
Current	\$ 42,141	\$ 23,151
Deferred	10,134	35,089
	<u>52,275</u>	<u>58,240</u>
State:		
Current	8,488	(1,848)
Deferred	2,707	3,386

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	11,195	1,538
	-----	-----
Total tax provision	\$ 63,470	\$ 59,778
	=====	=====

The deferred income tax balance includes the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. The components of the Company's deferred tax assets are summarized in the following table:

22

	SEPTEMBER 30, 2005

	(THOUSANDS OF
Deferred tax assets:	
Mark-to-market on loans held for sale	\$ 57,540
Allowance for loan losses	72,559
Compensation related items	19,943
State income and franchise taxes	11,243
Other - net	-

Total deferred tax assets	161,285
Deferred tax liabilities:	
Loan origination costs	(33,851)
Mortgage servicing	(9,387)
Other - net	(1,095)

Total deferred tax liabilities	(44,333)

Net deferred tax asset	\$ 116,952
	=====

In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets depends in part upon the generation of future taxable income during the periods in which temporary differences become deductible. In the Company's opinion, the deferred tax assets will be fully realized and no valuation allowance is necessary as the Company has the ability to generate sufficient future taxable income to realize the tax benefits.

The Company has accrued the expected maximum tax and interest exposure for tax matters that are either in the process of resolution or have been identified as having the potential for adjustment. These matters primarily consist of issues relating to the discontinued insurance operations, the apportionment of income to various states and the deduction of certain expenses.

NOTE 13: DEBT - FREMONT GENERAL CORPORATION

The debt of Fremont General is detailed in the following table; none of the

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Fremont General debt is guaranteed by FIL:

23

	SEPTEMBER 30, 2005 ----- (THOUSANDS OF
Senior Notes due 2009, less discount (2005 - \$1,082; 2004 - \$1,317)	\$ 180,368
Liquid Yield Option Notes due 2013, ("LYONs") less discount (2004 - \$339) ...	-
Junior Subordinated Debentures	103,093

	\$ 283,461
	=====

Fremont General's 9% Junior Subordinated Debentures are the sole asset of Fremont General Financing I, a statutory business trust (the "Trust") wholly-owned by Fremont General. The Trust issued, and has outstanding, \$100 million of 9% Trust Originated Preferred SecuritiesSM (the "Preferred Securities") which represent preferred undivided beneficial interests in the Trust.

NOTE 14: DEPOSITS, FHLB ADVANCES AND WAREHOUSE LINES OF CREDIT - FREMONT INVESTMENT & LOAN

FIL utilizes the issuance of deposits, which are insured up to the maximum legal limit by the Federal Deposit Insurance Corporation, Federal Home Loan Bank ("FHLB") advances and warehouse lines of credit in funding its operations.

As of September 30, 2005, the weighted-average interest rate for savings and money market deposit accounts was 3.13% and for certificates of deposit it was 3.72%. The weighted-average interest rate for all deposits at September 30, 2005 was 3.61%.

Certificates of deposit as of September 30, 2005 are detailed by maturity and rates as follows:

AMOUNT	MATURING BY SEPTEMBER 30,	WEIGHTED AVERAGE RATE
-----	-----	-----
(THOUSANDS OF DOLLARS)		
\$ 6,738,505	2006	3.71%
35,055	2007	3.82%
3,755	2008	4.32%
48,960	2009	5.87%
805	2010	2.58%
-----		-----
\$ 6,827,080		3.72%

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=====

=====

Of the total certificates of deposit outstanding at September 30, 2005, \$1.36 billion were obtained through brokers.

Interest expense on deposits is summarized as follows:

	THREE MONTHS ENDED SEPTEMBER 30	
	2005	
	(THOUSANDS OF DOLLARS)	
Savings and money market deposit accounts	\$ 11,910	\$
Certificates of deposit	58,486	
Penalties for early withdrawal	(131)	
	-----	-----
	\$ 70,265	\$
	=====	=====

	NINE MONTHS ENDED SEPTEMBER 30	
	2005	
	(THOUSANDS OF DOLLARS)	
Savings and money market deposit accounts	\$ 32,678	\$
Certificates of deposit	149,602	
Penalties for early withdrawal	(359)	
	-----	-----
	\$ 181,921	\$
	=====	=====

Total interest payments on deposits were \$71.0 million and \$37.2 million, for the three month periods ended September 30, 2005 and 2004, respectively, and \$179.4 million and \$109.2 million, for the nine months ended September 30, 2005 and 2004, respectively.

FIL is a member of the Federal Home Loan Bank system and, as such, maintains a credit line with the FHLB of San Francisco that is based upon a percentage of its total regulatory assets, subject to collateralization requirements and certain collateral sub-limits. Advances are primarily collateralized by residential loans held for sale, and to a lesser extent, by certain commercial loans held for investment. The maximum amount of credit which the FHLB will extend varies from time to time in accordance with their policies.

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FIL's maximum financing availability, based upon its level of regulatory assets and subject to the amount and type of collateral pledged and their respective advance rates, was \$3.79 billion as of September 30, 2005. At September 30, 2005 and December 31, 2004, FIL had an approximate maximum borrowing capacity based upon its pledged loan collateral of \$2.47 billion and \$2.11 billion, respectively, with outstanding borrowings of \$639.0 million and \$900.0 million, respectively. All borrowings mature within one year. FIL pledged loans with a carrying value of \$2.73 billion and \$2.37 billion at September 30, 2005

25

and December 31, 2004, respectively, to secure the current and any future borrowings. FIL's borrowing capacity can be used to borrow under various FHLB loan programs, including adjustable and fixed-rate financing, for periods ranging from one day to 30 years, with a variety of interest rate structures available. The weighted-average interest rate on the amount outstanding at September 30, 2005 was 2.80%. The borrowing capacity has no commitment fees or cost, requires minimum levels of investment in FHLB stock (FIL receives dividend income on its investment in FHLB stock), can be withdrawn by the FHLB if there is any significant change in the financial or operating condition of FIL and is conditional upon FIL's compliance with certain agreements covering advances, collateral maintenance, eligibility and documentation requirements. At September 30, 2005, FIL was in compliance with all requirements of its FHLB credit facility.

Total interest payments on advances from the FHLB were \$10.4 million and \$4.8 million, for the three month periods ended September 30, 2005 and 2004, respectively, and \$30.1 million and \$20.6 million, for the nine months ended September 30, 2005 and 2004, respectively.

FIL has a line of credit with the Federal Reserve Bank of San Francisco ("Federal Reserve") and, at September 30, 2005 and December 31, 2004, had a borrowing capacity, based upon collateral pledged, of \$435.5 million and \$159.0 million respectively, with no outstanding borrowings at September 30, 2005 or December 31, 2004. FIL pledged loans with a carrying value of \$580.6 million and \$212.1 million at September 30, 2005 and December 31, 2004, respectively to the Federal Reserve. This line of credit may be utilized when all other sources of funds are not reasonably available and any such advances are made with the expectation that they will be repaid when the availability of the usual source of funds is restored, usually the next business day.

During 2003, FIL established three separate warehouse lines of credit to facilitate the funding of residential real estate loans prior to their sale or securitization. The total funding capacity available at September 30, 2005 under the three facilities was \$2.50 billion, of which \$1.25 billion was committed. There were no amounts outstanding on these facilities at September 30, 2005. Borrowings, if any, under each of the facilities are secured by loans held for sale as pledged by FIL. Each of the facilities is subject to certain conditions, including, but not limited to, financial and other covenants including the maintenance of certain capital and liquidity levels. At September 30, 2005, FIL was in compliance with all financial and other covenants related to these facilities.

26

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NOTE 15: OTHER LIABILITIES

The following table details the composition of the Company's other liabilities as of the dates indicated:

	SEPTEMBER 30, 2005 ----- (THOUSANDS OF
Deferred compensation obligation	\$ 47,687
Accrued incentive compensation	46,783
Borrower escrow collections payable	35,481
Premium recapture and repurchase reserve	34,344
State income tax liability	33,978
Accrued Employer Stock Ownership Plan expense	25,086
Accounts payable	21,625
Federal income tax liability	21,244
Borrower principal and interest due investors	18,914
Interest payable	12,292
Allowance for unfunded loan commitments	12,159
Other	32,510

Other liabilities	\$ 342,103
	=====

NOTE 16: DEFERRED COMPENSATION

Stock award plans are provided for the benefit of certain key members of management that authorize shares of either stock rights or stock options to be allocable to participants. Restricted stock awards are amortized to compensation expense over the service period of the awards that vary from two to ten years. Unamortized amounts are reported as deferred compensation.

The Company periodically contributes cash to a grantor stock ownership trust ("GSOP") in order to pre-fund contributions to various employee benefit plans (e.g., 401(K) match, Employee Stock Ownership Plan contribution, etc.). The Company consolidates the GSOP under the provisions of Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities. The GSOP uses the contributed cash to acquire shares of the Company's common stock and the shares held by the GSOP are recorded at fair value and treated as treasury stock for purposes of calculating the Company's basic and diluted earnings per share.

The Company also maintains a Supplemental Executive Retirement Plan ("SERP") and Excess Benefit Plan ("EBP"); both of which are deferred compensation plans designed to provide certain

employees the ability to receive benefits that would be otherwise lost under the Company's qualified retirement plans due to statutory or other limits on salary deferral and matching contributions.

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The following table details the composition of the Company's deferred compensation balance (which is reported as a component of stockholders' equity) as of the periods indicated:

	SEPTEMBER 30, 2005 ----- (THOUSANDS OF
Unamortized restricted stock awards	\$ 26,595
SERP and EBP	16,907
GSOP	7,801

Deferred compensation	\$ 51,303
	=====

NOTE 17: INDUSTRIAL BANK REGULATORY CAPITAL

FIL is subject to various regulatory capital requirements under California and Federal regulations. Failure to meet minimum capital requirements can result in regulatory agencies initiating certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FIL must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. FIL's capital amounts, requirements and classifications are also subject to qualitative judgments by its regulators about components, risk weightings and other factors. Banking institutions that are experiencing or anticipating significant growth are generally expected to maintain capital ratios above minimum levels.

As of September 30, 2005, FIL's regulatory capital exceeded all minimum requirements to which it is subject and the most recent notification from the FDIC categorized FIL as "well-capitalized". To be categorized as "well-capitalized", the institution must maintain capital ratios as set forth in the following table; the FDIC and FIL, however, have agreed that FIL will maintain a Tier-1 Leverage Ratio of at least 8.5%. There have been no conditions or events since that notification that management believes have changed FIL's categorization as "well-capitalized". As of September 30, 2005, FIL's Tier-1 Leverage Ratio was 13.37%. Management does not anticipate any difficulties in maintaining a Tier-1 Leverage Ratio of at least 8.5%. FIL's actual regulatory amounts and the related standard regulatory minimum ratios required to qualify as well capitalized are detailed in the table below.

SEPTEMBER 30, 2005	
MINIMUM REQUIRED	ACTUAL RATIO
-----	-----

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Tier-1 Leverage Capital	5.00%	13.37%
Risk-Based Capital:		
Tier-1	6.00%	15.34%
Total	10.00%	16.59%

DECEMBER 31, 2004

	MINIMUM REQUIRED	ACTUAL RATIO
Tier-1 Leverage Capital	5.00%	12.71%
Risk-Based Capital:		
Tier-1	6.00%	15.19%
Total	10.00%	16.46%

Regulatory capital is assessed for adequacy by three measures: Tier-1 Leverage Capital, Tier-1 Risk-Based Capital and Total Risk-Based Capital. FIL's Tier-1 Leverage Capital includes common stockholder's equity, a certain portion of its mortgage servicing rights not includable in regulatory capital and other adjustments. Tier-1 Leverage Capital is measured with respect to average assets during the quarter. The Tier-1 Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter. FIL's Total Risk-Based Capital includes the allowable amount of its allowance for loan losses (the allowable amount includable is limited to 1.25% of gross risk-weighted assets). The Total Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter.

During the third quarter of 2005, the Company identified that its interpretation for the calculation of risk-weighted assets was not complete. Previously, the Company had not incorporated the unfunded portion of its commercial real estate loan commitments into its risk-weighted assets calculation. As of September 30, 2005, and for all prior periods presented, the Company has included the risk-weighted effect of these unfunded commitments into its Tier-1 Risk-Based and Total Risk-Based Capital ratios. Included in these unfunded commitments are amounts for loan transactions for which the unfunded portion is not currently available to the borrower based upon the level of progress of the underlying commercial real estate project. The impact upon the Tier-1 Risk-Based and Total Risk-Based Capital ratios in prior periods did not change FIL's categorization as "well-capitalized" and there is no impact upon the Tier-1 Leverage ratio.

The following table details the calculation of the respective capital amounts at FIL at the dates indicated:

SEPTEMBER 30,
2005

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(THOUSANDS OF DOLLARS)

Common stockholder's equity at FIL	\$ 1,501,067
Less:	
Disallowed portion of mortgage servicing rights	(2,800)
Unrealized gains on available-for-sale securities	(9)

Total Tier-1 Capital	1,498,258
Add:	
Allowable portion of the allowance for loan losses	122,685

Total Risk-Based Capital (Tier-1 and Tier-2)	\$ 1,620,943
	=====

NOTE 18 : COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ACTIVITIES

The Company is a defendant in a number of legal actions arising in the ordinary course of business and from the discontinuance of the insurance operations. Management and its legal counsel are of the opinion that the settlement of these actions, individually or in the aggregate, will not have a material effect on the Company's business, financial position or results of operations.

On June 2, 2004, the State of California Insurance Commissioner John Garamendi (the "Commissioner"), as statutory liquidator of Fremont Indemnity Company ("Fremont Indemnity"), filed suit in Los Angeles Superior Court against Fremont General alleging the improper utilization by Fremont General of certain net operating loss deductions ("NOLs") allegedly belonging to its Fremont Indemnity subsidiary (the "Fremont Indemnity case"). This complaint involves issues that Fremont General considers were resolved in an agreement among the California Department of Insurance, Fremont Indemnity and Fremont General (the "Letter Agreement"). The Letter Agreement, dated July 2, 2002, was executed on behalf of the California Department of Insurance by the Honorable Harry Low, the State of California Insurance Commissioner at that time. Fremont General has honored all of its obligations under the Letter Agreement. On July 16, 2004, the Commissioner filed a First Amended Complaint ("FAC") adding a cause of action for concealment of an alleged reinsurance dispute and is seeking to rescind the Letter Agreement.

On January 25, 2005, the Company's motions to dismiss the lawsuit brought by the Commissioner, on behalf of Fremont Indemnity, against the Company were argued and heard before the Superior Court of the State of California (the "Court"). On January 26, 2005 the Court issued its rulings dismissing all the

causes of action in the FAC without leave to amend, except for the cause of action for alleged concealment by Fremont General of a potential reinsurance dispute, which was dismissed with leave to amend. The Court also found that the Company had properly utilized the NOLs in accordance with the Letter Agreement. In addition, the Court rejected the Commissioner's request for findings that the Company's use of the NOLs and worthless stock deduction were voidable preferences and/or fraudulent transfers. The Court also rejected the Commissioner's request for injunctive relief to force the Company to amend its prior consolidated income tax returns to remove and forgo the worthless stock

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deduction for its investment in Fremont Indemnity.

On May 2, 2005 the Commissioner filed a Second Amended Complaint ("SAC") with regard to the 7th cause of action on behalf of Fremont Indemnity against the Company alleging intentional misrepresentation, concealment and promissory fraud, which induced the Commissioner to first enter into the Letter Agreement. On July 15, 2005, the Court dismissed the SAC with 20 days leave to amend. On August 4, 2005, the Commissioner filed a Third Amended Complaint ("TAC") again alleging intentional misrepresentation, concealment and promissory fraud. The Company continues to believe that the lawsuit lacks merit and has filed its opposition papers seeking to dismiss the TAC. The hearing is currently scheduled for November 22, 2005.

The Commissioner filed an additional and separate complaint against Fremont General on behalf of Fremont Indemnity as successor in interest to Comstock Insurance Company ("Comstock"), a former affiliate of Fremont Indemnity, which was subsequently merged into Fremont Indemnity. This case alleged similar causes of action regarding the usage of the NOLs as in the Fremont Indemnity case as well as improper transactions with other insurance subsidiaries and affiliates of Fremont Indemnity. This matter was deemed a related case to the Fremont Indemnity case. On April 22, 2005, the Court dismissed, without leave to amend, the entire complaint. This ruling does not address or necessarily have legal effect on the related Fremont Indemnity case. On July 22, 2005, the Company received a Notice of Appeal to the Court's dismissal of the complaint. The Company continues to believe that this litigation is without merit.

The Company, in relation to one of its commercial real estate lending transactions, has participated in a standby letter of credit which represents a conditional obligation of the Company; this letter of credit guarantees the performance of a borrower to a third party in the amount of approximately \$17.5 million.

31

NOTE 19: OPERATIONS BY REPORTABLE SEGMENT

The Company manages its operations based on the types of products and services offered by each of its strategic business units. Based on that approach the Company has grouped its products and services into two reportable segments -- Commercial and Residential Real Estate.

The Commercial Real Estate segment originates commercial real estate loans on a nationwide basis marketed through the use of trade advertising, direct marketing, newsletters and trade shows. Loans originated consist primarily of bridge, construction and permanent loans. Substantially all of the loans originated are held in the Company's loan portfolio.

The Residential Real Estate segment originates non-prime or sub-prime loans nationally through independent brokers on a wholesale basis. These loans are then primarily sold to third party investors on a servicing-released basis, or, to a lesser extent, securitized. Net interest income is recognized on these loans during the period that the Company holds them for sale. In addition, servicing income is realized on the loans sold into the Company's securitizations and on loans sold to other parties on an interim basis.

Management measures and evaluates each of these segments based on total revenues generated, net interest income and pre-tax operating results. The results of operations include certain allocated corporate expenses as well as

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interest expense charged back to the segments for the use of funds generated by the Company's corporate and retail banking operations. Interest expense is allocated among the residential and commercial segments using treasury rates matched to the terms of the respective loans plus a spread to cover the expenses of the retail banking operations.

Certain expenses that are centrally managed at the corporate level such as provision for income taxes and other general corporate expenses are excluded from the measure of segment profitability reviewed by management. Therefore, the Company has included these expenses along with the results of the Company's retail banking operation, which does not meet the definition of a reportable segment, in the Other category. Historical periods have been restated to conform to this presentation.

Intersegment eliminations shown in the table below relate to the credit allocated to the retail banking operations for operating funds provided to the two reportable segments.

32

	RESIDENTIAL REAL ESTATE	COMMERCIAL REAL ESTATE	OTHER
	-----	-----	-----
	(THOUSANDS OF DOLLARS)		
Three Months ended September 30, 2005			
Total revenues	\$ 249,544	\$ 84,520	\$ 86,752
Net interest income	60,847	45,812	13,689
Provision for loan losses	(5)	(4,077)	11
Net gain on whole loan sales and securitizations of residential real estate loans	116,044	-	-
Mortgage servicing rights amortization	(5,574)	-	-
Compensation	26,809	11,473	23,569
Other non-interest expense	11,433	5,871	16,030
Income before income taxes	135,803	34,144	(13,912)
Total consolidated assets	5,819,746	4,000,487	1,181,183
Three Months ended September 30, 2004			
Total revenues	\$ 184,906	\$ 75,517	\$ 47,549
Net interest income	60,933	49,621	2,950
Provision for loan losses	(11,713)	1,707	(303)
Net gain on whole loan sales and securitizations of residential real estate loans	89,366	-	-
Mortgage servicing rights amortization	(3,186)	-	-
Compensation	24,280	8,713	17,95
Other non-interest expense	9,825	4,450	10,19
Income before income taxes	130,833	37,526	(23,46
Total consolidated assets	4,415,017	3,708,529	1,394,89

33

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	RESIDENTIAL REAL ESTATE -----	COMMERCIAL REAL ESTATE -----	OTHER -----
	(THOUSANDS OF DOLLARS)		
Nine Months ended September 30, 2005			
Total revenues	\$ 711,095	\$ 235,148	\$ 223,724
Net interest income	202,535	132,680	31,847
Provision for loan losses	(6)	(7,250)	5
Net gain on whole loan sales and securitizations of residential real estate loans	316,368	-	-
Mortgage servicing rights amortization	(15,121)	-	-
Compensation	87,285	24,034	65,466
Other non-interest expense	34,195	6,914	40,573
Income before income taxes	384,780	114,715	(42,249)
Total consolidated assets	5,819,746	4,000,487	1,181,183
Nine Months ended September 30, 2004			
Total revenues	\$ 631,965	\$ 229,716	\$ 135,974
Net interest income	193,307	152,604	6,561
Provision for loan losses	(5,422)	12,255	(597)
Net gain on whole loan sales and securitizations of residential real estate loans	338,612	-	-
Mortgage servicing rights amortization	(6,593)	-	-
Compensation	104,054	26,431	55,695
Other non-interest expense	26,826	11,164	32,493
Income before income taxes	412,961	109,398	(72,719)
Total consolidated assets	4,415,017	3,708,529	1,394,898

34

NOTE 20: EARNINGS PER SHARE

Earnings per share have been computed based on the weighted-average number of shares. The following tables set forth the computation of basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30, -----	
	2005	2004
	(THOUSAND DOLLARS, EXCEPT WHERE SHOWN OTHERWISE)	
Net income		
(numerator for basic earnings per share)	\$ 92,565	\$ 85,000
Effect of dilutive securities:		
LYONs	-	-
Net income available to common stockholders after assumed conversions (numerator for diluted earnings per share)	\$ 92,565	\$ 85,000

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Weighted-average shares		
(denominator for basic earnings per share)	72,962	72,
Effect of dilutive securities using the treasury stock method		
for restricted stock and stock options:		
Restricted stock	1,311	1,
Employee benefit plans	1,154	
Stock options	101	
LYONS	-	
	-----	-----
Dilutive potential common shares	2,566	1,
	-----	-----
Adjusted weighted-average shares and assumed conversions		
(denominator for diluted earnings per share)	75,528	73,
	=====	=====
Basic earnings per share	\$ 1.27	\$ 1
	=====	=====
Diluted earnings per share	\$ 1.23	\$ 1
	=====	=====

35

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

This report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements and the currently reported results are based upon the current expectations and beliefs of Fremont General Corporation ("Fremont") and its subsidiaries (combined "the Company") concerning future developments and their potential effects upon the Company. These statements and the Company's results reported herein are not guarantees of future performance or results and there can be no assurance that actual developments and economic performance will be as anticipated by the Company. Actual developments and/or results may differ significantly and adversely from the Company's expected or currently reported results as a result of significant risks, uncertainties and factors, often beyond the Company's control (as well as the various assumptions utilized in determining the Company's expectations), and which include, but are not limited to, the following:

- o the variability of general and specific economic conditions and trends, and changes in, and the level of, interest rates;
- o the impact of competition in the non-prime residential lending market and in the commercial real estate lending market on the Company's ability to adequately price, underwrite and originate its loans;
- o the impact of competition and pricing environments on loan and deposit products and the resulting effect upon the Company's net interest margin and net gain on sale;
- o changes in the Company's ability to originate loans, and any changes in the cost and volume of loans originated as a result thereof;

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- o the effectiveness of the Company's interest rate risk management, including hedging, of its funded and unfunded loans;
- o the ability to access the necessary capital resources in a cost-effective manner to fund loan originations, the condition of the whole loan sale and securitization markets and the timing of sales and securitizations;
- o the ability of the Company to sell or securitize the residential real estate loans it originates, the pricing of existing and future loans, and the net premiums realized upon the sale of such loans;
- o the ability of the Company to sell certain of the commercial real estate loans and foreclosed real estate in its portfolio and the net proceeds realized upon the sale of such;
- o the impact of changes in the commercial and residential real estate markets, and changes in the fair values of the Company's assets and loans, including the value of the underlying real estate collateral;
- o the ability to effectively manage the Company's growth in assets and volume, including its lending concentrations, and to maintain acceptable levels of credit quality;
- o the ability to collect and realize the amounts outstanding, and the timing thereof, of loans and foreclosed real estate;
- o the ability to appropriately estimate an adequate level for the allowance for loan losses, the valuation reserve for loans held for sale, the loan repurchase reserve and the premium recapture reserve, as well as the fair value of the retained mortgage servicing rights and residual interests in securitizations;

36

- o the effect of certain determinations or actions taken by, or the inability to secure regulatory approvals from, the Federal Deposit Insurance Corporation, the Department of Financial Institutions of the State of California or other regulatory bodies on various matters;
- o the ability of the Company to maintain cash flow sufficient for it to meet its debt service and other obligations;
- o the ability to maintain effective compliance with laws and regulations and control expenses, particularly in periods of significant growth for the Company;
- o the impact and cost of adverse state and federal legislation and regulations, litigation, court decisions and changes in the judicial climate;
- o the impact of changes in federal and state tax laws and interpretations, including tax rate changes, and the effect of any adverse outcomes from the resolution of issues with taxing authorities;
- o the ability to maintain an effective system of internal and financial disclosure controls, and to identify and remediate any control deficiencies, under the requirements of Section 404 of the Sarbanes-Oxley Act of 2002; and

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- o other events, risks and uncertainties discussed elsewhere in this Form 10-Q, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and from time to time in Fremont's other reports, press releases and filings with the Securities and Exchange Commission.

The Company undertakes no obligation to publicly update such forward-looking statements.

OVERVIEW

Fremont General Corporation ("Fremont General" or when combined with its subsidiaries "the Company") is a holding company which is engaged in lending operations through its indirectly wholly-owned subsidiary, Fremont Investment & Loan ("FIL"). FIL is a California state-chartered industrial bank. Fremont General is not a "bank holding company" as defined for regulatory purposes.

FIL has two primary lending operations, residential and commercial real estate, both of which are engaged in on a nationwide basis. FIL's residential real estate lending platform originated loans from 46 states through its five regional loan production centers during the third quarter of 2005. The commercial real estate lending operation includes nine regional offices and, as of September 30, 2005, had loans outstanding in 33 states. FIL funds its lending operations primarily through retail and brokered deposits that are insured up to the maximum legal limit by the Federal Deposit Insurance Corporation ("FDIC") and, to a lesser extent, advances from the Federal Home Loan Bank of San Francisco ("FHLB"). FIL raises its retail deposits in California (predominately Southern California) through a network of 21 branches and a centralized call center. FIL is regulated by the FDIC and the Department of Financial Institutions of the State of California ("DFI"). FIL will also utilize its warehouse lines of credit from time to time to fund part of its residential real estate loan production.

FIL's residential real estate lending operation originates first and, to a lesser degree, second mortgage loans on a wholesale basis through a network of independent mortgage brokers. FIL offers

37

mortgage products that are designed for borrowers who do not generally satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders, such as Fannie Mae and Freddie Mac and are commonly referred to as "non-prime" or "sub-prime". These borrowers generally have considerable equity in the properties securing their loans, but have impaired or limited credit profiles or higher debt-to-income ratios than conventional mortgage lenders allow. The borrowers also include individuals who, due to self-employment or other circumstances, have difficulty documenting their income through conventional means. FIL seeks to mitigate its exposure to credit risk through underwriting standards that strive to ensure appropriate loan to collateral valuations. All of the residential real estate loans that FIL originates are currently either sold in whole loan sales to various financial institutions or, to a lesser extent, securitized and sold to various investors. The Company has retained some of these loans as held for investment in prior periods and may do so again in the future.

FIL's commercial real estate lending operation provides first mortgage financing on various types of income producing properties. The commercial real estate loans that FIL originates are all held for investment, with some loans participated out to limit credit exposures. Loans are originated through

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broker and borrower relationships and the borrowers are typically mid-size developers and owners seeking a loan structure that provides limited recourse and is short-term, providing bridge or construction financing for comprehensive construction, renovation, conversion, repositioning and lease-up of existing or new properties. To manage the credit risk involved in this lending, FIL is focused on the value and quality of the collateral and the quality and experience of the parties with whom it does business. The size of loan commitments originated generally range from \$10 million to \$60 million, with some loans for larger amounts.

The Company's two operating lines of business are generally designed to be somewhat counter-cyclical and to provide balance in varying economic cycles; however, this balance may not be achieved as both of the Company's operating businesses are influenced by the overall condition of the economy, in particular the interest rate environment and, as a result, experience cyclicity in volume, loan losses and earnings. The Company strives to manage its operations so as to optimize operational efficiency and to maintain risks within acceptable parameters. The Company's lending operations generate income as follows:

- o All of the residential real estate loans originated are currently sold for varying levels of gain through whole loan sales to other financial institutions, and to a lesser degree, to various investors through securitization transactions. A held for sale valuation reserve, a loan repurchase reserve and a premium recapture reserve are maintained and adjusted through provisions (which are either an expense or a credit to income) that are recognized in the consolidated statements of income. Net interest income is recognized on these loans during the period that the Company holds them for sale. Servicing income is realized on the loans sold into the Company's securitizations and on whole loan sales when servicing is retained, as well as on an interim basis for loans sold on a servicing released basis to other financial institutions.

38

- o Commercial real estate loans, which are held for investment, generate net interest income on the difference between the rates charged on the loans and the cost of borrowed funds. An allowance for loan losses is maintained and adjusted through provisions (which are either an expense or a credit to income) that are recognized in the consolidated statements of income.

Principal among the various market risks the Company faces are interest rate risk, which is the risk that the valuation of the Company's interest-sensitive loans and liabilities and its net interest income will change due to changes in interest rates, and liquidity risk, which is the ability of the Company to access the necessary funding and capital resources, in a cost-effective manner, to fund its loan originations or to sell its loans held for sale. The Company endeavors to mitigate interest rate risk by attempting to match the rate reset (or repricing) characteristics of its assets with its liabilities. The Company utilizes forward loan sale commitments to provide liquidity and to hedge its loans held for sale as well as Eurodollar futures to hedge its loan pipeline and a portion of its loans held for sale. The objective of the Company's interest rate and liquidity risk management activities is to reduce the risk of operational disruption and to reduce the volatility in income caused by changes in interest rates; however, the mortgage banking industry is inherently subject to income volatility due to the effect of interest rate variations on loan production volume, premiums realized on loan sales and securitizations, as well as loan pre-payment patterns, which in turn affects the valuation of the Company's residual interests and mortgage servicing rights, as well as the amount of loan servicing income realized.

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This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto presented under Item 1, and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, the Company evaluates its estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company has identified four accounting policies as being critical because they require more significant judgment and estimates about matters that may differ from the estimates determined under

39

different assumptions or conditions. These critical accounting policies relate to the gain on whole loan sales and securitizations, allowance for loan losses, derivatives and income taxes. The critical accounting policies and estimates are further discussed in Management's Discussion and Analysis in the Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

EARNINGS PERFORMANCE

The Company reported income before income taxes of \$156.0 million for the third quarter of 2005 as compared to \$144.9 million for the third quarter of 2004. For the first nine months of 2005, income before income taxes totaled \$457.2 million, as compared to \$449.6 million for the first nine months of 2004. The increase in income before income taxes for the third quarter and first nine months of 2005 represent increases of 7.7% and 1.7% over the results for the third quarter and first nine months of 2004, respectively. This is primarily a result of increased levels of net interest income and loan servicing income, partially offset by higher non-interest expenses. During the third quarter and first nine months of 2005, the Company recorded credits to income for its provision for loan losses as a result of lower net charge-offs, non-accrual loans and restructured loans. This is compared to a larger credit to income for the provision during the third quarter of 2004 and a provision expense for the first nine months of 2004. The net gain on whole loan sales and securitizations was higher during the third quarter of 2005 as compared to the third quarter of 2004; however, the level of gain for the first nine months of 2005 was lower than during the same period of 2004.

The Company reported net income of \$92.6 million for the third quarter of 2005. This is compared to net income of \$85.1 million for the third quarter of 2004. For the first nine months of 2005, net income totaled \$273.4 million, as compared to \$263.1 million for the first nine months of 2004.

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NET INTEREST INCOME

The Company recorded net interest income for the third quarter and first nine months of 2005 of \$120.3 million and \$367.1 million as compared to \$113.5 million and \$352.5 million for the third quarter and first nine months of 2004, respectively. The increase in net interest income is primarily a result of an increase in the average interest-earning assets, primarily the residential real estate loans held for sale. Total average interest-earning assets increased 18.1% to \$11.00 billion during the third quarter of 2005, as compared to \$9.32 billion during the third quarter of 2004. The net interest income margin as a percentage of average interest-earning assets decreased to an annualized 4.34% for the third quarter of 2005 from 4.85% for the third quarter of 2004. Total average interest-earning assets increased 14.6% to \$10.99 billion for the first nine months of 2005, as compared to \$9.59 billion during the first nine months of 2004. The net interest income margin decreased to an annualized 4.47% for the first nine months of 2005 from 4.91% for the first nine months of 2004. Net interest income is impacted by the volume, mix and rate of interest-earning assets and interest-bearing liabilities. The decrease in the Company's net interest margin is due

40

primarily to higher funding costs relative to the yields realized on loans outstanding during the third quarter and first nine months of 2005. In particular, yields on the Company's residential real estate loans held for sale have increased at a slower rate during the first nine months of 2005 than the underlying cost of funds during the same period.

The following tables identify the consolidated interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins, as well as an analysis of changes in net interest income due to volume and rate changes, for the third quarter and first nine months of 2005 and 2004:

	THREE MONTHS ENDED		
	2005		
	AVERAGE BALANCE	INTEREST	YIELD/ COST
	(THOUSANDS OF DOLLAR)		
Interest-earning assets (1):			
Commercial real estate loans	\$ 3,939,714	\$ 81,242	8.18%
Residential real estate loans (2)	6,203,624	114,665	7.33%
Syndicated commercial loans	-	-	-
Residual interests in securitized loans	32,570	4,262	51.92%
Cash equivalents and investment securities	822,940	7,845	3.78%
	\$ 10,998,848	\$ 208,014	7.50%
	=====	=====	=====
Interest-bearing liabilities:			

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Time deposits	\$ 6,537,140	\$ 58,384	3.54%	\$
Savings deposits	1,613,204	11,881	2.92%	
FHLB advances	1,351,626	10,411	3.06%	
Warehouse lines of credit	59,870	929	6.16%	
Senior Notes due 2004	-	-	-	
Senior Notes due 2009	181,450	3,650	8.05%	
LYONs	-	-	-	
Junior Subordinated Debentures	103,093	2,320	9.00%	
Other	30,019	91	1.20%	
	-----	-----	-----	-----
Total interest-bearing liabilities	\$ 9,876,402	\$ 87,666	3.52%	\$
	=====	=====	=====	=====

Net interest income \$ 120,348
=====

Percent of average interest-earning assets:

Interest income	7.50%
Interest expense	3.16%

Net interest margin	4.34%
	=====

41

	NINE MONTHS ENDED			
	2005			
	AVERAGE BALANCE	INTEREST	YIELD/ COST	
	(THOUSANDS OF DOLLAR			
Interest-earning assets (1):				
Commercial real estate loans	\$ 3,801,336	\$ 224,091	7.88%	\$
Residential real estate loans (2)	6,467,422	351,623	7.27%	
Syndicated commercial loans	-	-	-	
Residual interests in securitized loans	22,280	8,569	51.42%	
Cash equivalents and investment securities	702,837	16,605	3.16%	
	-----	-----	-----	-----
Total interest-earning assets	\$ 10,993,875	\$ 600,888	7.31%	\$
	=====	=====	=====	=====
Interest-bearing liabilities:				
Time deposits	\$ 6,316,905	\$ 149,347	3.16%	\$
Savings deposits	1,667,349	32,574	2.61%	
FHLB advances	1,507,165	30,130	2.67%	
Warehouse lines of credit	97,187	3,485	4.79%	
Senior Notes due 2004	-	-	-	
Senior Notes due 2009	181,450	10,950	8.05%	

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LYONs	320	15	6.27%	
Junior Subordinated Debentures	103,093	6,960	9.00%	
Other	28,524	365	1.71%	
	-----	-----	-----	-----
Total interest-bearing liabilities	\$ 9,901,993	\$ 233,826	3.16%	\$
	=====	=====	=====	=====
Net interest income		\$ 367,062		
		=====		
Percent of average interest-earning assets:				
Interest income		7.31%		
Interest expense		2.84%		

Net interest margin		4.47%		
		=====		

42

	THREE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO 2004			NI
	CHANGE DUE TO			
	VOLUME	RATE	TOTAL	VOLU
	-----	-----	-----	-----
	(THOUSANDS OF DOLLARS)			
Cash equivalent and investment securities	\$ 1,049	\$ 3,487	\$ 4,536	\$ 4
Loans:				
Commercial real estate	2,482	6,355	8,837	(7
Residential real estate	26,690	2,093	28,783	71
Other	1,587	1,367	2,954	3
	-----	-----	-----	-----
Total Loans	30,759	9,815	40,574	67
	-----	-----	-----	-----
Total increase in interest income	31,808	13,302	45,110	72
	-----	-----	-----	-----
Time deposits	(10,823)	(18,561)	(29,384)	(25
Savings deposits	1,186	(4,029)	(2,843)	1
FHLB advances	(3,238)	(2,386)	(5,624)	(1
Warehouse lines of credit	(428)	-	(428)	(2
Senior Notes due 2004 and 2009	41	-	41	
LYONs	7	-	7	
Junior Subordinated Debentures	-	-	-	
Other	(57)	22	(35)	
	-----	-----	-----	-----
Total decrease in interest expense	(13,312)	(24,954)	(38,266)	(27
	-----	-----	-----	-----
Increase (decrease) in net interest income	\$ 18,496	\$ (11,652)	\$ 6,844	\$ 45
	=====	=====	=====	=====

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NON-INTEREST INCOME

WHOLE LOAN SALES AND SECURITIZATIONS OF RESIDENTIAL REAL ESTATE LOANS

The gain on the sale of residential real estate loans increased from \$89.4 million in the third quarter of 2004 to \$116.0 million for the third quarter of 2005 due to a significant increase in the volume of loans sold and securitized in the third quarter of 2005 as compared to the third quarter of 2004. For the first nine months of 2005, the gain on the sale of residential real estate loans decreased to \$316.4 million, as compared to \$338.6 million for the first nine months of 2004. The decrease in gain on sale is primarily attributable to the realization of lower gross premiums on loans sold and securitized during the first nine months of 2005, as compared to the first nine months of 2004, as a result of lower interest rate margins reflecting increased price competition in the non-prime mortgage origination market.

A total of \$9.27 billion in loans were sold (including loans sold via securitization) during the third quarter of 2005, as compared to loan sales and securitizations of \$6.80 billion during the third quarter of 2004. For the first nine months of 2005, a total of \$26.09 billion in loans were sold (including loans sold via securitization), as compared to loan sales of \$16.60 billion during the first nine months of 2004. The average gross premium on loans sold and securitized during the third quarter of 2005 was 2.25% as

43

compared to an average of 3.02% for the third quarter of 2004. For the first nine months of 2005, the average gross premium on loans sold was 2.60% as compared to an average of 3.68% for the first nine months of 2004.

The Company realized a net gain on its derivative instruments utilized to hedge the impact of interest rate volatility on its residential real estate lending activities during the third quarter and first nine months of 2005. This net gain primarily resulted from an increase in the underlying interest rate indices (primarily the two-year swap rate) which conversely had a negative impact upon the gross loan sale and securitization premiums realized during the same period. Such premiums and the gain or loss on derivative instruments have exhibited, and are expected to continue to exhibit, variability (often significant) based on various economic and interest rate environments, as well as on the Company's loan sale and hedging activity levels and their timing. The Company reported provisions for valuation and repurchase reserves for the third quarter and first nine months of 2005 of (0.05)% and 0.06% of total net loan sales and securitizations, respectively, as compared to the similar periods in 2004 of 0.14% and 0.12%, respectively. During the third quarter of 2005, the Company updated its loss estimates and stratifications for both of its valuation and repurchase reserves. The estimates were based on an updated analysis of historical loan collateral vintage data. The net result was a negative provision, or credit to income, for the valuation and repurchase reserves during the third quarter of 2005 (as represented by the (0.05)% noted above) and a shifting of a certain amount of the valuation reserve into the repurchase reserve. The Company continually evaluates the loss estimates utilized for its valuation and repurchase reserves based upon its analysis of historical and current data and the mix of loan characteristics. The net gain percentage (the net gain after direct costs, net gains or losses on derivative instruments, provisions for premium recapture and valuation and repurchase reserves, divided by net loans sold) on these sales decreased to 1.26% in the third quarter of

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2005 from 1.32% in the third quarter of 2004. For the first nine months of 2005, the gain percentage on these sales decreased to 1.22% as compared to 2.02% in the first nine months of 2004.

44

The following table provides the amounts of loans sold during the respective periods and additional detail on the net gain on whole loan sales and securitizations (net gain on sale):

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
		(THOUSANDS OF DO
Whole loan sales of residential real estate loans	\$ 8,236,360	\$ 6,245,154
Securitizations of residential real estate loans	1,032,725	555,814
Total loan sales and securitizations - net of repurchases .	\$ 9,269,085	\$ 6,800,968
Gross premium recognized on loan sales and securitizations.	\$ 208,687	\$ 204,820
Net gain (loss) on derivative instruments	24,218	(6,552)
Direct costs of loan originations - net	(111,712)	(90,321)
Provision for premium recapture and reversal	(9,096)	(9,191)
Provision for valuation and repurchase reserves	112,097	98,756
Net gain on sale	\$ 116,044	\$ 89,366
Net gain on sale	\$ 116,044	\$ 89,366
Origination expenses allocated during the period of origination	(30,381)	(53,551)
Net operating gain on sale	\$ 85,663	\$ 35,815
Gross premium recognized on loan sales and securitizations.	2.25 %	3.02 %
Net gain (loss) on derivative instruments	0.26 %	(0.10) %
Direct costs of loan originations	(1.21) %	(1.32) %
Provision for premium recapture and reversal	(0.10) %	(0.14) %
Provision for valuation and repurchase reserves	1.20 %	1.46 %
Net gain on sale	0.05 %	(0.14) %
Net gain on sale	1.25 %	1.32 %
Net gain on sale	1.25 %	1.32 %
Origination expenses allocated during the period of origination	(0.33) %	(0.79) %

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Net operating gain on sale	----- 0.92 % =====	----- 0.53 % =====
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45

LOAN SERVICING AND OTHER NON-INTEREST INCOME

The components of the Company's loan servicing and other non-interest income for the third quarter and first nine months of 2005 and 2004 are indicated in the following tables:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
	2005	2004	2005
	----- (THOUSANDS OF DOLLARS) -----		
Loan Servicing Income:			
Servicing fee income:			
Securitization transactions	\$ 6,108	\$ 3,249	\$ 15,701
Interim	9,807	6,261	24,083
Loans sold - servicing retained	897	672	2,369
	-----	-----	-----
	16,812	10,182	42,153
Ancillary income	2,314	1,483	5,845
Other	1,029	47	1,843
	-----	-----	-----
	\$ 20,155	\$ 11,712	\$ 49,841
	=====	=====	=====
MSR Amortization and Impairment:			
MSR amortization	\$ (5,574)	\$ (3,186)	\$ (15,121)
MSR impairment provision	(1,014)	60	(1,178)
	-----	-----	-----
	\$ (6,588)	\$ (3,126)	\$ (16,299)
	=====	=====	=====
Other Non-Interest Income:			
Prepayment fees:			
Commercial real estate	\$ 467	\$ 923	\$ 1,848
Residential real estate	706	555	1,980
Commercial real estate transaction fees	973	1,287	6,809
All other	2,456	196	3,932
	-----	-----	-----
	\$ 4,602	\$ 2,961	\$ 14,569
	=====	=====	=====

The Company's loan servicing income (which is all related to residential real estate), before mortgage servicing rights amortization and impairment provision, increased from \$11.7 million in the third quarter of 2004 to \$20.2

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million for the third quarter of 2005. For the first nine months of 2005 loan servicing income was \$49.8 million versus \$25.9 million for the first nine months of 2004. These increases were due to increased residential real estate loan origination volume, which resulted in an increase in loan securitization activity and higher levels of interim servicing during the third quarter and first nine months of 2005 as compared to the third quarter and first nine months of 2004. The additional loan securitization activity also created a higher level of MSRs, which resulted in an increase in the amortization (expense) of the MSRs in 2005 versus 2004.

The Company was servicing approximately \$22.16 billion in principal balance of loans as of September 30, 2005. The Company intends to continue to service its loans held for sale and those loans it securitizes, and has begun to service some loans sold to other parties for more than on an interim basis.

46

The following is a breakdown of the principal balance of the loans being serviced by categorization as of the periods indicated:

	SEPTEMBER 30, 2005 ----- (MILLIONS OF
Loans in securitizations	\$ 4,851
Loans held for sale	5,738
Loans sold and servicing retained	1,240
Loans sold and serviced on an interim basis	10,321
Other	8
	----- \$ 22,158 =====

PROVISION FOR LOSSES

For the third quarter of 2005 the Company recognized a \$4.1 million negative provision for loan losses (credit to income) as compared to a \$10.3 million credit to income for the third quarter of 2004. While both negative provisions resulted from improved credit quality metrics, the negative provision for the third quarter of 2004 also included the effect of the transfer during that quarter of \$910.0 million in residential real estate loans held for investment to loans held for sale, which increased the amount credited to income. For the first nine months of 2005, the provision for loan losses was a \$7.3 million credit to income versus a \$6.2 million expense for the first nine months of 2004. The change in the year-to-date provision was primarily a result of a significant decrease in the net charge-offs and level of non-accrual loans experienced for the commercial real estate loans held for investment during 2005. In addition, the Company has continued to reduce its exposure to commercial real estate loans secured by hotel and lodging properties which have been the majority of the non-accrual loans and net charge-offs in prior periods. The provision for loan losses represents the current period expense (or credit to income) associated with maintaining an appropriate allowance for loan losses.

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The loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition and concentrations of the loan portfolio, the number and balances of non-accrual loans, delinquencies, the level of restructured loans, assessment by management of the inherent risk in the portfolio, the value of the underlying collateral and the general economic conditions in the commercial real estate markets in which the Company lends. Periodic fluctuations in the provision for loan losses and the allowance for loan losses result from management's on-going assessment of their adequacy.

NON-INTEREST EXPENSE

Non-interest expense increased during the third quarter and first nine months of 2005, as compared to the third quarter and first nine months of 2004. Compensation expense increased from \$51.0 million for the third quarter of 2004 to \$61.9 million for the third quarter of 2005. The increase was primarily due to an increase in accrued incentive compensation and increased compensation expense related to the higher

47

residential real estate loan origination volume and an increase in the loan servicing portfolio. For the first nine months of 2005, compensation expense decreased to \$176.8 million from \$186.2 million for the first nine months of 2004. Compensation expense decreased on a year-over-year basis primarily due to an increase in the capitalization level of direct loan origination costs during 2005. In addition, the Company decreased its internal commission costs related to its residential real estate loan production during 2005 as compared to 2004, thus limiting the amount of increase in compensation expense associated with the increase in residential real estate loan production during 2005. Occupancy and other non-interest expense increased during the third quarter and first nine months of 2005 as compared to the same periods in 2004 reflecting the increase in residential real estate loan origination volume and associated loan servicing activities. Compensation and non-compensation related operating expenses are detailed in the following tables:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
	(THOUSANDS)	
Compensation and related	\$ 61,851	\$ 50,950
Occupancy	7,412	4,404
Other	33,334	24,474
	\$ 102,597	\$ 79,828
	\$ 102,597	\$ 79,828

THREE MONTHS ENDED
SEPTEMBER 30,

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	2005 -----	2004 -----
		(THOUSANDS)
Total compensation and related	\$ 133,665	\$ 100,971
Deferral of loan origination costs (1)	(71,814)	(50,021)
	-----	-----
Compensation and related	\$ 61,851	\$ 50,950
	=====	=====

48

Other non-interest expense for the third quarter and first nine months of 2005 and 2004 is summarized below:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005 -----	2004 -----
		(THOUSANDS)
Legal, professional and other outside services	\$ 8,375	\$ 4,078
Information technology	4,844	3,299
Printing, supplies and postage	4,131	2,563
Advertising and promotion	2,915	2,221
Auto and travel	2,178	1,937
Leasing and loan expense	1,945	1,269
Net real estate owned expenses	(389)	1,453
Telephone	1,142	984
All other	8,193	6,670
	-----	-----
Other expenses	\$ 33,334	\$ 24,474
	=====	=====

INCOME TAXES

Income tax expense of \$63.5 million and \$59.8 million for the quarters ended September 30, 2005 and 2004, represent effective tax rates of 40.7% and 41.3%, respectively, on income before income taxes of \$156.0 million and \$144.9 million for the same respective periods. For the nine month periods ended September 30, 2005 and 2004, income tax expense of \$183.8 million and \$186.5 million, represent effective tax rates of 40.2% and 41.5%, respectively, on income before income taxes of \$457.2 million and \$449.6 million for the same respective periods. The decreases in effective tax rates during 2005 are primarily a result of the changing geographic mix of the Company's operations which has resulted in more of the Company's taxable income being subject to tax in states with lower tax rates. The effective tax rates for all periods presented are different than the Federal enacted tax rate of 35.0%, due mainly to various apportioned state income tax provisions resulting from the Company's

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nationwide lending operations.

REVIEW OF FINANCIAL CONDITION

LOANS HELD FOR SALE

The Company's residential real estate loans held for sale have increased to \$5.77 billion at September 30, 2005 from \$5.45 billion at December 31, 2004. During the third quarter of 2005, residential real estate loan originations totaled \$9.61 billion as compared to \$5.88 billion for the third quarter of 2004. During the first nine months of 2005, residential real estate loan originations totaled \$26.62 billion as compared to \$16.87 billion for the first nine months of 2004. The following table details the loans held for sale as of the dates indicated:

49

	SEPTEMBER 30, 2005
	----- (THOUSANDS OF
Loan principal balance:	
1st trust deeds	\$ 5,119,708
2nd trust deeds	617,822

	5,737,530
Basis adjustment for fair value hedge accounting	-
Net deferred direct origination costs	65,298
Less: Valuation reserve	(35,348)

Loans held for sale - net	\$ 5,767,480
	=====

The following tables profile the loan origination volume for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	----- 2005	----- 2004
	----- (THOUSANDS OF DOLLARS,	
Loan origination volume by lien position:		
Firsts	\$ 8,710,006	\$ 5,515,901
Seconds	900,777	369,076
	-----	-----
	\$ 9,610,783	\$ 5,884,977
	=====	=====

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For First Mortgages origination volume only:

Average loan size	\$ 251,371	\$ 210,515
Weighted-average coupon	7.32%	7.23%
Average bureau credit score (FICO)	622	614
Average loan-to-value (LTV)	80.5%	80.4%
Percentage of interest-only loan volume	25.7%	13.3%

Product Mix:

ARM - 2/28	90.4%	83.9%
ARM - 3/27	2.2%	3.7%
ARM - 5/25	0.7%	1.4%
Fixed	6.7%	11.0%
	-----	-----
	100.0%	100.0%
	=====	=====

Loan purpose:

Purchase	51.0%	45.7%
Refinance	49.0%	54.3%
	-----	-----
	100.0%	100.0%
	=====	=====

For Second Mortgages origination volume only:

Average loan size	\$ 55,279	\$ 39,681
Weighted-average coupon	10.18%	10.73%
Average bureau credit score (FICO)	648	643

First & Second Mortgages - Origination by geographic dispersion:

California	26.8%	31.9%
New York	11.2%	11.5%
Florida	11.6%	7.2%
New Jersey	6.8%	7.6%
Maryland	6.6%	4.8%
All other states	37.0%	37.0%
	-----	-----
	100.0%	100.0%
	=====	=====

LOANS HELD FOR INVESTMENT

The Company's net loans held for investment before the allowance for loan losses was approximately \$4.12 billion at September 30, 2005, as compared to \$3.48 billion at December 31, 2004. The following tables show the total commercial real estate new loan commitment volume for the periods indicated:

THREE MONTHS ENDED SEPTEMBER 30,	
-----	-----
2005	2004
-----	-----

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(THOUSANDS OF DOLLARS)

Senior loans	\$ 1,556,154	\$ 875,479
Mezzanine loans	-	5,701
	-----	-----
	\$ 1,556,154	\$ 881,180
	=====	=====
 Average senior loan size originated	 \$ 37,051	 \$ 35,019
	=====	=====

The following table shows detail for the Company's loans held for investment outstanding as of the dates indicated:

	SEPTEMBER 30, 2005	
	AMOUNT	% OF TOTAL

	(THOUSANDS OF DOLLARS)	
Commercial real estate loans:		
Bridge	\$ 2,030,701	49 %
Construction	1,391,419	33 %
Permanent	644,706	16 %
Single tenant credit	87,631	2 %
	-----	-----
Other	4,154,457	100 %
	6,242	-
	-----	-----
Net deferred loan fees and origination costs	4,160,699	100 %
	(41,603)	(1) %
	-----	-----
Allowance for loan losses	4,119,096	99 %
	(158,713)	(4) %
	-----	-----
Loans held for investment - net	\$ 3,960,383	95 %
	=====	=====

As of September 30, 2005, approximately 29.9%, 13.3% and 13.1% of the Company's commercial real estate loans outstanding were secured by properties located within California, Florida and New York, respectively; no other state represented greater than 10% of the loan portfolio. The real estate securing these loans includes a wide variety of property types including multi-family, office, retail, industrial, land

development, lodging and mixed-use properties. The loans in the portfolio were distributed by property type as follows as of the dates indicated:

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SEPTEMBER 30,
2005

Multi-family - Condominiums	36%
Office	15%
Land Development	17%
Commercial Mixed-Use	9%
Industrial	6%
Retail	6%
Multi-family - Other	5%
Hotels & Lodging	3%
Special Purpose	3%

	100%
	=====

The following table stratifies the commercial real estate loans held for investment by loan amounts outstanding as of September 30, 2005:

LOAN SIZE RANGE	NUMBER OF LOANS	TOTAL LOANS OUTSTANDING	%
-----	-----	-----	-----
		(THOUSANDS OF DOLLARS)	
\$0 - \$ 1 million	69	\$ 3,912	0%
> \$1 million - \$ 5 million	78	251,193	6%
> \$5 million - \$10 million	93	680,012	16%
> \$10 million - \$15 million	43	523,894	13%
> \$15 million - \$20 million	28	487,873	12%
> \$20 million - \$30 million	17	406,829	10%
> \$30 million - \$40 million	17	585,776	14%
> \$40 million - \$50 million	6	263,915	6%
> \$50 million	14	951,053	23%
	-----	-----	-----
	365	\$ 4,154,457	100%
	=====	=====	=====

As of September 30, 2005, the average loan size was \$11.4 million (or \$14.0 million when loans under \$1 million are excluded) and the average loan-to-value ratio was approximately 73%, using the most current available appraised values and current loan balances outstanding.

The Company's largest single individual commercial real estate loan outstanding (net of participation) at September 30, 2005 was \$94.2 million with a total loan commitment of \$135.0 million. The Company's largest net commitment for a single loan at September 30, 2005 was \$135.0 million; this represents the maximum potential loan amount to the borrower; however, the amount available to borrow is generally subject to certain levels of completion or other factors on the underlying property. As of September 30, 2005, the largest concentration of loans (separate loans on different properties) which have

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a common investor or equity sponsor totaled \$220.9 million in loan principal outstanding and \$284.0 million in total loan commitment and is comprised of three separate loans, all of which were performing as of September 30, 2005.

The following tables provide additional information related to the Company's commercial real estate non-accrual loans, foreclosed assets ("REO"), restructured loans on accrual status and accruing loans past due 90 days or more, as well as reflect the related net loss experience and allowance for loan loss reconciliation applicable to the loans held for investment as of and for the respective periods ended as shown below:

	SEPTEMBER 30, 2005	
	-----	(THOUSANDS OF DOLLARS) EXCEPT PERCENTAGES
COMMERCIAL REAL ESTATE:		
Non-accrual loans held for investment ("HFI")	\$ 21,926	
Real estate owned/foreclosed assets (REO)	24,712	

Total non-performing assets	\$ 46,638	
	=====	
Accruing loans past due 90 days or more	\$ -	
	=====	
Restructured loans on accrual status:	\$ 12,350	
	=====	
Non-accrual loans to total loans HFI		0.53%
Allowance for loan losses to total loans HFI		3.85%
Allowance for loan losses to non-accrual loans		723.9%

53

	THREE MONTHS ENDED SEPTEMBER 30, 2005	
	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
	-----	-----
	(THOUSANDS OF DOLLARS)	
Beginning allowance for loan losses	\$ 159,909	\$ -
Provision for loan losses	(4,077)	(5)
Charge-offs	-	-
Recoveries	2,823	5

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Ending allowance for loan losses	\$ 158,655	\$ -
Net charge-offs	\$ 2,823	\$ 5
Net loan charge-offs to average commercial real estate loans held for investment	(0.28)%	

THREE MONTHS ENDED SE

	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
Beginning allowance for loan losses	\$ 191,475	\$ 21,672
Provision for loan losses	1,707	(11,713)
Charge-offs	(5,353)	(21)
Fair value adjustment (1)	-	(9,856)
Recoveries	392	7
Ending allowance for loan losses	\$ 188,221	\$ 89
Net charge-offs	\$ (4,961)	\$ (9,870)
Net loan charge-offs to average commercial real estate loans held for investment	0.52%	

NINE MONTHS ENDED SE

	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
Beginning allowance for loan losses	\$ 171,471	\$ -
Provision for loan losses	(7,250)	(6)
Charge-offs	(12,180)	-
Recoveries	6,613	6
Ending allowance for loan losses	\$ 158,654	\$ -

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Net charge-offs	\$ (5,567)	\$ 6
	=====	=====
Net loan charge-offs to average total loans held for investment	0.20%	
	=====	
		NINE MONTHS ENDED SE

	COMMERCIAL	RESIDENTIAL
	REAL ESTATE	REAL ESTATE
	-----	-----
	(THOUSANDS OF DOLLARS,	
Beginning allowance for loan losses	\$ 194,957	\$ 15,643
Provision for loan losses	12,255	(5,422)
Charge-offs	(19,519)	(403)
Fair value adjustment (1)	-	(9,856)
Recoveries	528	127
	-----	-----
Ending allowance for loan losses	\$ 188,221	\$ 89
	=====	=====
Net charge-offs	\$ (18,991)	\$ (10,132)
	=====	=====
Net loan charge-offs to average total loans held for investment	0.65%	
	=====	

There were six commercial real estate non-accrual loans held for investment (the largest having a balance of \$7.6 million) totaling \$21.9 million, or 0.6% of the total loans held for investment, as of September 30, 2005. At December 31, 2004 there were 13 commercial real estate loans totaling \$82.3 million on non-accrual status, which represented 2.5% of the total loans held for investment as of that date. Loans secured by hotel and lodging properties represented 38% and 55% of the total commercial real estate loans on non-accrual status as of September 30, 2005 and December 31, 2004, respectively.

REO related to commercial real estate loans was \$24.7 million at September 30, 2005, consisting of seven properties (the largest having a balance of \$11.1 million), which were acquired through or in lieu of foreclosure on loans secured by real estate. At December 31, 2004 there were eight commercial real estate properties owned, totaling \$21.3 million.

The level of non-performing assets fluctuates and specific loans can have a material impact upon the total. Consideration must be given that, due to the secured nature of the Company's loans and the presence of larger-balance loans, the classification, and the timing thereof, of an individual loan as non-accrual or REO can have a significant impact upon the level of total non-performing assets, without necessarily a commensurate increase in loss exposure.

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The allowance for loan losses, as a percentage of total loans held for investment decreased to 3.85% as of September 30, 2005, as compared to 4.92% as of December 31, 2004. In the third quarter of 2005, the Company incurred no net loan charge-offs and realized \$2.8 million in recoveries of loan balances previously charged-off, as compared to \$14.8 million in total net charge-offs for the third quarter of 2004. The net charge-off ratio for commercial real estate loans for the first nine months of 2005 was 0.20% as compared to 0.65% for the first nine months of 2004. Loans secured by hotel and lodging properties represented (25.3%) and 53.7% of the total commercial real estate net (recoveries)/charge-offs for the first nine months of 2005 and 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The commercial and residential real estate lending activities are financed primarily through deposit accounts offered by FIL and which are insured by the FDIC. FIL offers certificates of deposit and savings and money market deposit accounts (insured by the FDIC to the legal maximum) through its 21 branches in California. FIL minimizes the costs associated with its accounts by not offering traditional checking, safe deposit boxes, ATM access and other traditional retail services. Deposits totaled \$8.44 billion at September 30, 2005 and are summarized as to type as follows:

	NUMBER OF ACCOUNTS	TOTAL DEPOSITS
	-----	-----
		(THOUSANDS OF DOLLARS)
Savings and money market deposit accounts	33,162	\$ 1,613,632
Certificates of deposit:		
Retail	115,117	5,464,933
Brokered	-	1,362,147

		\$ 8,440,712
		=====

FIL is also eligible for financing through the FHLB, from which financing is available based upon advance rates on certain pledged collateral and at various rates and terms. At September 30, 2005, FIL had a borrowing capacity with the FHLB of \$2.47 billion, of which \$639.0 million was borrowed and outstanding. The \$2.47 billion in borrowing capacity was based upon a total of \$2.73 billion in pledged loan collateral at September 30, 2005. FIL's maximum financing availability, based upon its regulatory assets and subject to the amount of collateral pledged and the related advance rates, was approximately \$3.79 billion as of September 30, 2005.

To add flexibility and capacity to its ability to fund the origination of

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residential real estate loans, the Company currently maintains three separate warehouse lines of credit. The total funding capacity of these three facilities was \$2.50 billion at September 30, 2005. Borrowings, if any, under each of the facilities are secured by loans held for sale as pledged by FIL. There were no amounts outstanding at September 30, 2005. The three facilities are summarized as follows:

- o \$1 billion master repurchase facility (\$500 million committed) with Goldman Sachs Mortgage Company expiring in February 2006, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.45%.
- o \$1 billion master loan and security facility (\$500 million committed) with Greenwich Capital Financial Products expiring in September 2006, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.
- o \$500 million master repurchase facility (\$250 million committed) with Credit Suisse First Boston Mortgage Capital expiring in January 2006, secured by certain residential real estate loans held for sale, interest at overnight LIBOR plus a margin of 0.50%.

Each of the facilities is subject to certain conditions, including but not limited to financial and other covenants. At September 30, 2005, FIL was in compliance with all financial and other covenants under these facilities.

In addition, FIL has a line of credit with the Federal Reserve Bank of San Francisco ("Federal Reserve") with a borrowing capacity of \$435.5 million at September 30, 2005. There were no amounts outstanding under the line of credit with the Federal Reserve at September 30, 2005.

The Company's residential loan disposition strategy is to primarily utilize whole loan sales and, to a lesser extent, securitizations. The Company attempts to build multiple whole loan sale relationships to achieve diversity and enhance market liquidity. During the first nine months of 2005, the Company had transacted whole loan sales with 20 different financial institutions, the largest institution representing 17.8% of the total whole loan sales volume during this period.

As a holding company, Fremont General currently pays its operating expenses, interest expense, taxes, obligations under its various employee benefit plans, and stockholders' dividends, and meets its other obligations primarily from its cash on hand and intercompany tax payments and benefit plan reimbursements from FIL. During 2002 and 2003, Fremont General had significant net operating loss carryforwards which were used to offset taxable income generated by FIL. As a result, intercompany payments of federal income tax obligations from FIL, which were otherwise payable to taxing authorities, were available for use by Fremont General for general working capital purposes. The last of the net

operating loss carryforwards were fully utilized during 2003 and only current operating losses at Fremont General will offset taxable income generated by FIL; as a result, during 2004 and 2005, Fremont General paid most of the federal income taxes it received from FIL to the federal taxing authorities. Dividends of \$6.2 million and \$4.6 million were paid on Fremont General's common stock in the quarters ended September 30, 2005 and 2004, respectively; however, no assurance can be given that future common stock dividends will be declared.

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During the third quarter of 2005, FIL implemented a dividend of all of its retained residual interests in securitized loans to Fremont General Credit Corporation ("FGCC"), which is an intermediate holding company wholly-owned by Fremont General. All of the retained residual interests in securitized loans now reside at FGCC. The purpose of the dividend was to create an additional source of cash flow to Fremont General to the extent of cash received from the residual interests.

There exist certain Federal Income Tax and California Franchise Tax matters pending resolution, of which Fremont General is not yet able to make a determination of their ultimate liability, but does not believe that the actual outcomes of these matters will adversely impact its liquidity. It is expected that the final resolution of these matters may take several years.

Fremont General has cash and cash equivalents of \$102.1 million at September 30, 2005 and no debt maturities until March of 2009.

OFF-BALANCE SHEET ACTIVITIES

In the third quarter of 2005, the Company continued to securitize a certain amount of its residential real estate loans. Securitization is a process of transforming the loans into securities, which are sold to investors. The loans are first sold to a special purpose corporation, which then transfers them to a qualifying special-purpose entity (a "QSPE") which is legally isolated from the Company. The QSPE, in turn, issues interest-bearing securities, commonly known as asset-backed securities, that are secured by the future cash flows to be derived from the securitized loans. The QSPE uses the proceeds from the issuance of the securities to pay the purchase price of the securitized loans. The Company does not utilize unconsolidated special-purpose entities as a mechanism to remove non-performing assets from the consolidated balance sheets.

Securitization is used by the Company to provide an additional source of liquidity. The QSPEs are not consolidated into the Company's financial statements since they meet the criteria established by SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." In general, those criteria require the QSPE to be isolated and distinct from the transferor (the Company), to be limited to permitted activities, and have defined limits on the assets it can hold and the permitted sales, exchanges or distributions of its assets.

58

During the third quarter of 2005, the Company securitized \$1.03 billion in residential real estate loans. The investors and the QSPEs do not have any recourse to the Company if the cash flows generated by the securitized loans are inadequate to service the securities issued by the QSPEs. At the close of each securitization, the Company removes from its balance sheet the carrying value of the loans securitized and adds to its balance sheet the estimated fair value of the assets obtained in consideration for the loans which generally include the cash received (net of transaction expenses), retained junior class securities (referred to as residual interests) and mortgage servicing rights.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

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The Company is subject to market risk resulting primarily from the impact of fluctuations in interest rates upon balance sheet financial instruments such as loans, debt and derivatives. Changes in interest rates can affect loan interest income, gains on the sale of residential real estate loans, interest expense, loan origination volume, net investment income, and total stockholders' equity. The level of gain on the sale of residential real estate loans is dependent upon the level of loan origination volume, the premium paid by the purchasers of such loans and the gain or loss realized from hedging activities. Each of these factors, in turn, are highly dependent upon changes in, and the level of, interest rates and other economic factors. The Company may experience a decrease in the amount of gain it realizes should significant interest rate volatility occur or if other economic factors have a negative impact on the value and volume of the loans the Company originates. The objective of the asset and liability management activities is to provide a high level of net interest and investment income and to seek cost effective sources of capital, while maintaining acceptable levels of interest rate and liquidity risk.

The Company is subject to interest rate risk resulting from differences between the rates on, and repricing characteristics of, interest-earning loans held for investment (and loans held for sale) and the rates on, and repricing characteristics of, interest-bearing liabilities used to finance its loans such as deposits and debt. Interest rate gaps may arise when assets are funded with liabilities having different repricing intervals or different market indices to which the instruments' interest rate is tied and to this degree, earnings will be sensitive to interest rate changes. Additionally, interest rate gaps could develop between the market rate and the interest rate on loans in the loan portfolio, which could result in borrowers' prepaying their loan obligations. The Company attempts to match the characteristics of interest rate sensitive assets and liabilities to minimize the effect of fluctuations in interest rates. For the Company's financial instruments, the expected maturity date does not necessarily reflect the net market risk exposure because certain instruments are subject to interest rate changes before expected maturity. With respect to the Company's residential real estate loans held for sale and its unfunded loan pipeline, the Company attempts to minimize its interest rate risk exposure through forward loan sale commitments and other financial instruments, such as Eurodollar futures contracts. These other financial instruments meet the definition of a derivative under generally accepted accounting principles and, accordingly, they are recorded in the consolidated financial statements at fair value.

59

The Company is reliant upon the secondary mortgage market for execution of its whole loan sales and securitizations of residential real estate loans. While the Company strives to maintain adequate levels of liquidity support and capital to withstand certain disruptions in the secondary mortgage market, a significant disruption could adversely impact the Company's ability to fund, sell, securitize or finance its residential real estate loan origination volume, leading to reduced gains on sale and a corresponding decrease in revenue and earnings. A deterioration in performance of the residential real estate loans after being sold in whole loan sales and securitizations could adversely impact the availability and pricing of such future transactions.

Quantitative and qualitative disclosures about the Company's market risk are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. There have been no material changes in such risks or in the Company's asset and liability management activities during the nine months ended September 30, 2005.

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ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2005, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. The evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the Company's management, including the CEO and CFO, have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2005.

There have been no changes in the Company's internal controls over financial reporting that occurred in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

60

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is a defendant in a number of legal actions arising in the ordinary course of business and from the discontinuance of the insurance operations. Management and its legal counsel are of the opinion that the settlement of these actions, individually or in the aggregate, will not have a material effect on the Company's business, financial position or results of operations.

On June 2, 2004, the State of California Insurance Commissioner John Garamendi (the "Commissioner"), as statutory liquidator of Fremont Indemnity Company ("Fremont Indemnity"), filed suit in Los Angeles Superior Court against Fremont General alleging the improper utilization by Fremont General of certain net operating loss deductions ("NOLs") allegedly belonging to its Fremont Indemnity subsidiary (the "Fremont Indemnity case"). This complaint involves issues that Fremont General considers were resolved in an agreement among the California Department of Insurance, Fremont Indemnity and Fremont General (the "Letter Agreement"). The Letter Agreement, dated July 2, 2002, was executed on behalf of the California Department of Insurance by the Honorable Harry Low, the State of California Insurance Commissioner at that time. Fremont General has honored all of its obligations under the Letter Agreement. On July 16, 2004, the Commissioner filed a First Amended Complaint ("FAC") adding a cause of action for concealment of an alleged reinsurance dispute and is seeking to rescind the Letter Agreement.

On January 25, 2005, the Company's motions to dismiss the lawsuit brought by the Commissioner, on behalf of Fremont Indemnity, against the Company were argued and heard before the Superior Court of the State of California (the "Court"). On January 26, 2005 the Court issued its rulings dismissing all the causes of action in the FAC without leave to amend, except for the cause of action for alleged concealment by Fremont General of a potential reinsurance dispute, which was dismissed with leave to amend. The Court also found that the Company had properly utilized the NOLs in accordance with the Letter Agreement. In addition, the Court rejected the Commissioner's request for findings that the Company's use of the NOLs and worthless stock deduction were voidable

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preferences and/or fraudulent transfers. The Court also rejected the Commissioner's request for injunctive relief to force the Company to amend its prior consolidated income tax returns to remove and forgo the worthless stock deduction for its investment in Fremont Indemnity.

On May 2, 2005 the Commissioner filed a Second Amended Complaint ("SAC") with regard to the 7th cause of action on behalf of Fremont Indemnity against the Company alleging intentional misrepresentation, concealment and promissory fraud, which induced the Commissioner to first enter into the Letter Agreement. On July 15, 2005, the Court dismissed the SAC with 20 days leave to amend. On August 4, 2005, the Commissioner filed a Third Amended Complaint ("TAC") again alleging intentional misrepresentation, concealment and promissory fraud. The Company continues to believe that the lawsuit lacks merit and has filed its opposition papers seeking to dismiss the TAC. The hearing is currently scheduled for November 22, 2005.

61

The Commissioner filed an additional and separate complaint against Fremont General on behalf of Fremont Indemnity as successor in interest to Comstock Insurance Company ("Comstock"), a former affiliate of Fremont Indemnity, which was subsequently merged into Fremont Indemnity. This case alleged similar causes of action regarding the usage of the NOLs as in the Fremont Indemnity case as well as improper transactions with other insurance subsidiaries and affiliates of Fremont Indemnity. This matter was deemed a related case to the Fremont Indemnity case. On April 22, 2005, the Court dismissed, without leave to amend, the entire complaint. This ruling does not address or necessarily have legal effect on the related Fremont Indemnity case. On July 22, 2005, the Company received a Notice of Appeal to the Court's dismissal of the complaint. The Company continues to believe that this litigation is without merit.

The Company, in relation to one of its commercial real estate lending transactions, has participated in a standby letter of credit which represents a conditional obligation of the Company; this letter of credit guarantees the performance of a borrower to a third party in the amount of approximately \$17.5 million.

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

ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	(a) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED (1)	(b) AVERAGE PRICE PAID PER SHARE (OR UNIT) (1) (2)	(c) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS
July 1-31, 2005	58,737	\$ 0.30	58,737

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August 1-31, 2005	39,267	\$	21.38	39,267
September 1-30, 2005	1,520	\$	23.23	1,520
Total	99,524	\$	8.97	99,524

62

ITEM 6: EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Restated Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 1998, Commission File Number 1-8007.)
3.2	Certificate of Amendment of Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1998, Commission File Number 1-8007.)
3.3(a)	Amended and Restated Bylaws of Fremont General Corporation. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
3.3(b)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on November 30, 2003. (Incorporated by reference to Exhibit 3.3(b) to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2003, Commission File Number 1-8007.)
3.3(c)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on March 16, 2004. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 2004, Commission File Number 1-8007.)
4.1	Form of Stock Certificate for Common Stock of the Registrant. (Incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.)
4.2	Indenture with respect to Liquid Yield Option Notes Due 2013 between the Registrant and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company.) (Incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 filed on October 1, 1993, Registration Number 33-68098.)

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- 4.3 Notice of Redemption to the Holders of Liquid Yield Option Notes due 2013. (Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Quarterly Report on Form 10-Q for the period ended June 30, 2005, Commission File Number 1-8007.)
- 4.4 Indenture with respect to the 9% Junior Subordinated Debentures among the Registrant, the Trust and Bank of New York (originated with First Interstate Bank of California), a New York Banking Corporation, as trustee. (Incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.5 Amended and Restated Declaration of Trust with respect to the 9% Trust Originated Preferred Securities among the Registrant, the Regular Trustees, Chase Bank (USA), a Delaware banking corporation, as Delaware trustee, and JPMorgan Chase Bank, National Association, as Institutional Trustee. (Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.6 Preferred Securities Guarantee Agreement between the Registrant JP Morgan Chase Bank, National Association, as Preferred Guarantee Trustee. (Incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.7 Common Securities Guarantee Agreement by the Registrant. (Incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 4.8 Form of Preferred Securities. (Included in Exhibit 4.5). (Incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

63

EXHIBIT NO.	DESCRIPTION
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

With respect to long-term debt instruments, the Registrant undertakes to provide copies of such agreements upon request by the Commission.

64

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.

FREMONT GENERAL CORPORATION

Date: November 9, 2005

/s/ LOUIS J. RAMPINO

Louis J. Rampino
President and Chief Executive Officer

Date: November 9, 2005

/s/ PATRICK E. LAMB

Patrick E. Lamb
Senior Vice President, Chief Financial
Officer, Chief Accounting Officer and
Treasurer
(Principal Accounting Officer)