FREMONT GENERAL CORP
Form 10-K
March 16, 2005

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004

Commission File Number 1-8007

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

Registrant s Telephone Number, including Area Code:

(310) 315-5500

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $1.00 par value

Liquid Yield Option Notes Due 2013 (Zero Coupon-Subordinated)
Fremont General Financing I 9% Trust Originated Preferred Securities[SM]
(Title of Each Class)

New York Stock Exchange

(Name of Each Exchange on Which Registered)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes þ No o

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant s most recently completed second fiscal quarter, June 30, 2004:

Common Stock, $1.00 Par Value $948,161,000

The number of shares outstanding of each of the issuer s classes of common stock as of February 28, 2005:

Common Stock, $1.00 Par Value 77,232,000 Shares

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the proxy statement for the 2005 annual meeting of stockholders are incorporated by reference into Part III of this report.

FREMONT GENERAL CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2004

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PART I

Item 1. *Business*

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:

the variability of general and specific economic conditions and trends, and changes in, and the level of, interest rates;

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;

changes in the Company s ability to originate loans, and any changes in the cost and volume of loans originated as a result thereof, and the effectiveness of the Company s interest risk management, including hedging, of its funded and unfunded loans;

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;

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;

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;

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;

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;

the ability to collect and realize the amounts outstanding, and the timing thereof, of loans and foreclosed real estate;

the variability in determining the level of the allowance for loan losses and the fair value of the mortgage servicing rights and residual interests in securitizations;

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;

the ability of the Company to maintain cash flow sufficient for it to meet its debt service and other obligations;

the ability to maintain effective compliance with laws and regulations and control expenses, particularly in periods of significant growth for the Company;

the impact and cost of adverse state and federal legislation and regulations, litigation, court decisions and changes in the judicial climate;

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;

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;

other events, risks and uncertainties discussed elsewhere in this Form 10-K 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.

General

Fremont General Corporation (Fremont General or when combined with its subsidiaries, the Company) is a financial services holding company. Fremont General s financial services operations are consolidated within Fremont General Credit Corporation (FGCC), which is engaged in commercial and residential (consumer) real estate lending nationwide through its California-chartered industrial bank subsidiary, Fremont Investment & Loan (FIL). Fremont General s operating strategy is to continue to grow its financial services business nationwide by focusing its resources on the development and expansion of profitable lending products and strong distribution channels. FIL is primarily funded through deposit accounts 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 (FHLB). Certain corporate revenues and expenses, comprised primarily of investment income, interest expense and certain general and administrative expenses, are not allocated by Fremont General to FGCC or FIL.

The reported consolidated assets and stockholders equity of the Company as of December 31, 2004 were $10.11 billion and $1.01 billion, respectively. The Company reported income before taxes from continuing operations of $601.7 million and net income from continuing operations of $353.8 million for the year ended December 31, 2004.

Fremont General, a Nevada corporation, was incorporated in 1972. Its corporate office is located at 2425 Olympic Boulevard, 3rd Floor East, Santa Monica, California 90404 and its phone number is (310) 315-5500. Fremont General s common stock is traded on the New York Stock Exchange under the symbol FMT . At December 31, 2004, the Company had approximately 2,600 employees, none of whom is represented by a collective bargaining agreement. The Company believes its relations with its employees are satisfactory. As of December 31, 2004, officers and directors of the Company, their families and the Company s benefit plans beneficially owned approximately 30% of Fremont General s outstanding common stock.

Lending Activities

The Company s lending operations consist of:

The wholesale origination of non-prime or sub-prime residential real estate loans on a nationwide basis which are primarily sold to third party investors on a servicing released basis, or, to a lesser extent, securitized.

The origination of commercial real estate loans on a nationwide basis which are all held for investment.

Lending is substantially all done on a senior and secured basis and the Company seeks to minimize credit exposure through loan underwriting that is focused upon appropriate loan to collateral valuations and cash flow coverages. Loans are originated through independent loan brokers, the Company s own marketing representatives and referrals from various financial intermediaries and financial institutions. The portfolio of commercial

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real estate loans held for investment was $3.48 billion at December 31, 2004. In addition, there were residential real estate loans held for sale of $5.45 billion at December 31, 2004.

The Company s loans held for investment, as well as the amounts of loans held for sale (which are all residential real estate loans), as of the dates indicated, are summarized in the following table by loan type.

	As of December 31,		
	2004	2003	2002
	(Thousands of dollars)		
Loans held for Investment:			
Commercial real estate loans:			
Bridge	$1,512,532	$1,659,847	$1,712,085
Construction	1,020,370	804,793	328,974
Permanent	805,760	1,281,877	1,393,427
Single tenant credit	177,193	268,506	296,787
	3,515,855	4,015,023	3,731,273
Residential real estate loans		789,951	392,061
Syndicated commercial loans		6,857	26,216
Other	4,526	4,615	4,272
	3,520,381	4,816,446	4,153,822
Deferred fees and costs	(35,767)	(25,436)	(15,937)
Loans before allowance for loan losses	3,484,614	4,791,010	4,137,885
Allowance for loan losses	(171,525)	(213,591)	(161,190)
Loans held for investment net	$3,313,089	$4,577,419	$3,976,695

	As of December 31,		
	2004	2003	2002
	(Thousands of dollars)		
Loans held for Sale:			
Loan principal balance:			
1st trust deeds	$5,036,724	$3,466,432	$1,591,901
2nd trust deeds	383,039	160,855	85,736
	5,419,763	3,627,287	1,677,637
Basis adjustment for fair value hedge accounting	(1,327)		
Net deferred direct origination costs	74,514	50,067	19,984
	5,492,950	3,677,354	1,697,621
Valuation reserve	(38,258)	(23,807)	(20,958)
Loans held for sale net	$5,454,692	$3,653,547	$1,676,663

Residential Real Estate Lending

The residential real estate loans originated by the Company are primarily secured by first deeds of trust. These loans generally have principal amounts below $500,000, have maturities generally of 30 years and are underwritten in accordance with lending policies that include standards covering, among other things, collateral value, loan to value and the customer s debt ratio and credit score. These loans generally are hybrid loans which have a fixed rate of interest for an initial period after origination, typically two to three years, after which the interest rate will be adjusted to a rate equal to the sum of six-month LIBOR and a margin as set forth in the mortgage note. This interest rate will then be adjusted at each six-month interval

thereafter, subject to various lifetime and periodic rate caps and floors. The loans are generally made to borrowers who do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) and are commonly known as sub-prime or non-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 traditional mortgage lenders allow. These borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income through conventional means. To mitigate the higher potential for credit losses that accompanies these types of borrowers, the Company attempts to maintain underwriting standards that require appropriate loan to collateral valuations. The underwriting guidelines are primarily intended to assess the ability and willingness of the potential borrower to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the loan. Generally the loans are underwritten with a view toward their resale into the secondary mortgage market through whole-loan sales or securitization. The Company also originates a number of second lien mortgage loans; these are primarily originated contemporaneously with the origination of a first lien mortgage loan on the same property by the Company. The Company s residential real estate loans are originated nationwide through five regional loan production offices (Brea, CA; Concord, CA; Downers Grove, IL; Tampa, FL; and Elmsford, NY). Origination is done on a wholesale basis nationally through independent loan brokers and through internal marketing representatives.

Origination volume increased approximately 74% to $23.91 billion in 2004 from $13.74 billion in 2003. Loans were originated in 45 different states during 2004, with the largest volume being originated in California (34.5%), New York (11.3%) and Florida (7.8%). The growth in loan originations during 2004 was the result of further penetration of existing markets and the overall growth in the national sub-prime lending market,

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which was positively impacted by a continued relatively lower interest rate environment. The following table profiles the loan origination volume for the periods indicated:

	Year Ended December 31,					
	2004		2003		2002	
	(Thousands of dollars, except percents)					
Loan origination volume by lien position:						
Firsts	$22,507,624	94.1%	$13,113,202	95.4%	$6,593,412	95.1%
Seconds	1,403,747	5.9%	626,538	4.6%	341,960	4.9%
	$23,911,371	100.0%	$13,739,740	100.0%	$6,935,372	100.0%
For first lien volume only:						
Average loan size	$ 213,746		$ 197,971		$ 174,038	
Weighted-average coupon	6.99%		7.31%		8.30%	
Average bureau credit score (FICO)	619		623		612	
Average loan-to-value (LTV)	81.0%		81.6%		80.5%	
Product Mix:						
ARM 2/28	80.1%		73.1%		82.3%	
ARM 3/27	3.9%		2.5%		2.0%	
ARM 5/25	0.7%					
Fixed	15.3%		24.4%		15.7%	
	100.0%		100.0%		100.0%	
Loan purpose:						
Purchase	43%		40%		41%	
Refinance	57%		60%		59%	
	100%		100%		100%	

The current residential real estate loan disposition strategy is to primarily utilize both whole loan sales, and, to a lesser extent, securitizations. During 2004, $22.5 billion in residential real estate loans were sold in whole loan sales to other financial institutions or through loan securitization transactions. The Company seeks to maximize the premiums on whole loan sales and securitizations by closely monitoring the requirements of the various institutional purchasers, investors and rating agencies, and focusing on originating the types of loans that meet their criteria and for which higher premiums are more likely to be realized. The Company also seeks to maximize access to the secondary mortgage market by maintaining a number of relationships with the various institutions who purchase loans in this market; during 2004, the Company transacted whole loan sales

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with 24 different institutions, as compared to 21 and 17 in 2003 and 2002, respectively. The table below shows the Company s disposition of loans through such transactions by significant purchasers for the years indicated:

	Year Ended December 31,					
	2004		2003		2002	
	(Millions of dollars, except percents)					
Purchasing Entity:						
EMC Mortgage/Bear Stearns	$ 3,159	13.9%	$ 25	0.2%	$ 61	1.1%
Fremont Home Loan Trusts(1)	2,969	13.1%	1,180	10.5%		0.0%
RBS Greenwich Capital	2,962	13.1%	2,004	17.9%	708	12.3%
Deutsche Bank	2,720	12.0%	1,037	9.3%	541	9.4%
Lehman Brothers	1,911	8.4%		0.0%	220	3.8%
Residential Funding Corporation/GMAC	1,873	8.3%	2,192	19.6%	411	7.2%
CS First Boston	1,848	8.1%	666	6.0%	2,152	37.6%
Washington Mutual	1,354	6.0%	1,664	14.9%	1,272	22.2%
Barclay s Bank	964	4.3%		0.0%		0.0%
Goldman Sachs	932	4.1%	1,957	17.5%		0.0%
Others	1,983	8.7%	462	4.1%	366	6.4%
	$22,675	100.0%	$11,187	100.0%	$5,731	100.0%
Less: Repurchases	(168)		(99)		(41)	
Total Whole Loan Sales & Securitizations	$22,507		$11,088		$5,690	

(1) Fremont Home Loan Trusts are the Company s securitization transactions.

In a whole loan sale, the Company enters into an agreement to sell the loans for cash, without recourse, generally on a servicing released basis. After the sale, the Company retains no interest in the underlying loans; however, the Company typically services the loans on an interim basis (for compensation) for a period of time after the sale until the transfer of servicing is completed. As part of the sale process, the Company gives customary representations and warranties regarding the characteristics and the origination process of the loans, as well as generally committing to repurchase certain loans if a payment default occurs within the first one or two months following the date the loan is sold. Historically, the level of repurchases has been insignificant as evidenced by the ratio of total repurchases to total loans sold in 2004 of 0.7% (0.9% and 0.7% in 2003 and 2002, respectively).

While the Company has primarily utilized whole loan sales as its loan disposition strategy, it also utilizes securitizations in which the Company sells residential real estate loans to a qualifying special-purpose entity, which is established for the limited purpose of purchasing the loans and issuing interest bearing securities that represent interests in the loans. The securitization is treated as a sale and the loans sold are removed from the balance sheet and the Company adds to its consolidated balance sheets the net cash received from the transaction as well as the Company s retained residual interest in the securitization transaction. The Company is the servicer on the four securitization transactions completed in 2004 and expects to be the servicer on any securitizations it enters into in the future; as such, it also records an asset for the mortgage servicing rights that it retains upon the completion of each securitization. During 2004, the Company entered into four securitizations totaling $2.97 billion in loan principal. The Company expects to continue to utilize securitizations in the future and attempts to minimize the amount of residual interests that it retains by structuring the transactions so that they include the issuance of net interest margin securities (or NIMs). The usage of NIMs concurrent with or shortly after a securitization allows the Company to receive a substantial portion of the gain on the transaction in cash at the closing of the NIMs sale, rather than over the actual life of the loans.

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During 2004, the residential real estate loans previously held for investment were reclassified into loans held for sale. The Company continuously evaluates its disposition options and may at some point in the future begin to again retain some portion of its loan production as held for investment.

The Company was servicing approximately $15.0 billion of loans as of December 31, 2004. The Company intends to continue to service the loans held for sale and those loans it securitizes; however, it currently does not contemplate servicing loans sold to other parties for more than on an interim basis. The following is a breakdown of the loans being serviced by categorization as of December 31, 2004 (millions of dollars):

Loans in securitizations	$ 3,172
Loans held for sale	5,455
Loans sold and serviced on an interim basis	6,364
	$14,991

Commercial Real Estate Lending

The commercial real estate lending operation, as of December 31, 2004, consists of 437 loans in its loan portfolio. Loans include short-term bridge facilities for the renovation and lease-up of existing properties, as well as permanent loans which generally have terms for up to five years. Loans also include construction loans, which are loans for the construction of new structures, and also for additions or alterations to existing structures that prohibit occupancy or generation of rental revenue of the property during the construction period. Loans also include longer term single tenant credit loans, however, origination of these loans substantially ceased during the first quarter of 2000. Bridge loans generally are interest-only for up to two year terms. Principal amortization for permanent loans is generally up to 25 years. Approximately 43% of the commercial real estate loan balances outstanding are bridge loans, 29% are construction loans, 23% are permanent loans and 5% are single tenant credit loans. The majority of the commercial real estate loans originated are adjustable interest rate loans based upon six-month LIBOR and an applicable margin, and generally range in loan commitment size from $10 million to $60 million, with some loans for larger amounts.

The Company originates commercial real estate loans nationwide through its nine regional production offices. The commercial real estate loans originated are generally held for the Company s own portfolio. Loan origination is primarily through independent loan brokers and, to a lesser degree, directly through its own marketing representatives. The products and capabilities of the commercial real estate lending operation are marketed through the use of trade advertising, direct marketing, newsletters and trade show attendance and sponsorship. The emphasis is on service oriented delivery highlighted by responsiveness and reliability. Loan structures are tailored to meet the needs and risk profiles of individual transactions. The commercial real estate lending philosophy is collateral focused with emphasis on selecting properties that generate stable or increasing income cash flow streams, have strong asset quality and proven sponsorship with defined business plans. Loan structures, particularly in the case of bridge loans, include hold backs for such items as funding of all renovation costs, tenant improvements, leasing commissions and interest carry until property stabilization. For some of the loans in the portfolio, the Company has received guarantees of project completion and debt service from the sponsoring entity. Commercial real estate loans are reported net of participations to other financial institutions or investors in the amount of $131.6 million and $78.3 million as of December 31, 2004

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and 2003, respectively. Commercial real estate new loan commitment volume increased to $2.73 billion in 2004 from $2.62 billion in 2003, as per the table below:

	Total Commercial Real Estate Loan Commitments	
	2004	**2003**
	(Thousands of dollars)	
Senior loans	$2,710,497	$2,576,725
Mezzanine loans	17,051	39,687
	$2,727,548	$2,616,412
Average senior loan size originated	$ 26,837	$ 26,293

The commercial real estate loan portfolio outstanding is primarily secured by first mortgages on properties in California (36.6%) and, to a lesser degree, New York (13.1%), Florida (10.7%), Illinois (7.0%), Texas (4.8%) and the District of Columbia (3.4%). The Company originated loans in 16 different states during 2004 and had loans situated in 39 different states as of December 31, 2004. 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:

	As of December 31,	
	2004	**2003**
Multi-Family Condominiums	25%	9%
Office	18%	23%
Commercial Mixed-Use	12%	16%
Land Development	12%	5%
Industrial	11%	13%
Retail	7%	11%
Multi-Family Other	5%	10%
Special Purpose	5%	7%
Hotels & Lodging	5%	6%
	100%	100%

The commercial real estate loan portfolio is stratified by loan size as follows (thousands of dollars):

Loan Size	Total Loans Outstanding	%	# of Loans	Average Loan Size
$0-$1 million	$ 17,794	1%	96	$ 185
>$1 million - $5 million	366,864	10%	134	2,738
>$5 million - $10 million	715,929	20%	98	7,305
>$10 million - $15 million	510,622	15%	43	11,875
>$15 million - $20 million	325,782	9%	19	17,146
>$20 million - $30 million	592,683	17%	25	23,707
>$30 million - $40 million	376,222	11%	11	34,202
>$40 million - $50 million	260,104	7%	6	43,351
>$50 million	349,855	10%	5	69,971

$3,515,855	100%	437	$ 8,045

The commercial real estate loan portfolio contains 11 individual loans with outstanding balances in excess of $40 million as of December 31, 2004, the largest individual loan having an outstanding balance of $105.0 million. The largest commitment to an individual borrower as of December 31, 2004 was $109.5 mil-

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lion, of which only $23.7 million was outstanding as of December 31, 2004. As of December 31, 2004, there was no concentration of loans (separate loans on different properties) which have a common investor or equity sponsor for which the aggregate outstanding principal balance of the separate loans exceeded $100 million.

As of December 31, 2004, the average loan size was $8.0 million (or $10.3 million when loans under $1 million are excluded) and the average loan-to-value ratio was approximately 71%, using the most current available appraised values and current loan balances outstanding. At December 31, 2004, 13 commercial real estate loans were classified as non-accrual, totaling $82.3 million, and there were eight commercial real estate properties owned, totaling $21.3 million, which were acquired through or in lieu of foreclosure on loans. At December 31, 2004, there were no commercial real estate loans that were 90 days or greater past due and on accrual status and the total outstanding balance of loans restructured during 2004 and on accrual status was $9.3 million.

Syndicated Commercial Loans

During 2004, the Company either sold, liquidated or charged-off the remaining interests in its syndicated commercial loans. The Company had ceased investing in syndicated commercial loans during 2001.

Funding Sources

The commercial and residential real estate lending and syndicated commercial loan activities are financed primarily through deposit accounts offered by FIL and which are insured by the FDIC (See Industrial Bank Regulation). FIL offers certificates of deposit and savings and money market deposit accounts (insured by the FDIC to the legal maximum) through its 20 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 $7.55 billion at December 31, 2004 and are summarized as to type as follows (thousands of dollars):

	Number of Accounts	Total Deposits
Savings and money market deposit accounts	29,925	$ 1,791,450
Certificates of deposit:		
Retail	88,082	3,930,327
Brokered	N/M	1,825,203
	118,007	$ 7,546,980

N/ M Not meaningful

Additional financing is available to FIL through advances from the Federal Home Loan Bank of San Francisco (FHLB). FIL maintains a credit line with the FHLB which has a maximum financing availability that is based upon a percentage of its regulatory assets, to which the actual borrowing capacity is subject to collateralization and certain collateral sub-limits. The financing by the FHLB is available at varying rates and terms. FIL s maximum financing availability, based upon its level of regulatory assets, was approximately $3.29 billion as of December 31, 2004. FIL s actual borrowing capacity, based upon the amount of collateral pledged and the applicable advance rates, was $2.11 billion as of December 31, 2004 (based upon a total of $2.37 billion in pledged loan collateral), with $900 million in outstanding advances. The borrowing capacity of FIL from the FHLB varies from time to time and is dependent upon the amount and timing of loans pledged. The maximum amount outstanding on the FHLB credit line at any month-end during 2004, 2003 and 2002 was $2.81 billion, $1.79 billion and $1.39 billion, respectively. FIL also has a line of credit with the Federal Reserve Bank of San Francisco, and at December 31, 2004 had a borrowing capacity, based upon collateral pledged, of $159.0 million, with no amounts outstanding.

To expand the capacity and flexibility of funding its residential real estate loan origination volume, the Company maintained three warehouse lines of credit during 2004. While the Company has only utilized these facilities on an infrequent basis, they may be used to fund loans prior to their sale or securitization. The

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three facilities total $1.5 billion of which $750 million is on a committed basis. Borrowing availability is created under the facilities through the pledging of residential real estate loans held for sale. The Company was in compliance with all covenants and requirements of these facilities as of December 31, 2004.

Competition

The Company competes in markets that are highly competitive and are characterized by factors that vary based upon product and geographic region. The markets in which it competes are typically characterized by a large number of competitors who compete based primarily upon price, terms and loan structure. The Company primarily competes with banks, mortgage, and finance companies, many of which are larger and have greater financial resources. The competitive forces of these markets could adversely affect net interest income, loan origination volume, net loan losses or operating expenses.

Discontinued Insurance Operations

The Company s discontinued insurance operations consist primarily of its property and casualty insurance segment, which was engaged in the underwriting of workers compensation insurance business through its subsidiary, Fremont Indemnity Company (Fremont Indemnity). This business was classified as discontinued in 2001. Discontinued insurance operations also include the Company s assumed treaty and facultative reinsurance business and its life insurance business. On July 2, 2002, a Letter Agreement of Run-Off and Regulatory Oversight among the California Department of Insurance (DOI), Fremont Indemnity and Fremont General (the Agreement) was entered into which provided for mandatory and contingent cash contributions by Fremont General, and increased regulatory control over Fremont Indemnity. The Company, based upon the results of its year-end 2002 actuarial evaluations (which reflected adverse loss development), determined that the financial position of its discontinued insurance operations had experienced further deterioration. As a result, the Company no longer expected that it would recover any of its investment in, or any of its potential future cash contributions to, its discontinued insurance operations and, as a result, incurred a charge for its discontinued insurance operations during the fourth quarter of 2002. Further, as a result of the restrictions contained in the Agreement with the DOI, the additional adverse loss development, and other actions taken by the DOI during the fourth quarter of 2002, including placing further restrictions on Fremont Indemnity s ability to direct the activities of the run-off of the discontinued insurance operations, the Company no longer had effective control of these operations and its activities were done at the consent and under the direction of the DOI. Accordingly, the assets and liabilities of the discontinued workers compensation insurance operations as of December 31, 2002 were removed from the consolidated balance sheets. (See Note T of Notes to Consolidated Financial Statements.)

Regulation and Supervision

FIL is chartered as an industrial bank and, as such, is subject to the supervision and regulation by the Department of Financial Institutions of the State of California (DFI) and, as an insured depository institution, by the FDIC. Fremont General is generally not directly regulated or supervised by the DFI, the FDIC, or any other bank regulatory authority, except with respect to guidelines concerning its relationship with its industrial bank subsidiary. FIL is examined on a regular basis by both agencies. At December 31, 2004, FIL was in compliance with the regulatory requirements of these agencies. Federal and state regulations also prescribe certain minimum capital requirements and FIL is in compliance with such requirements.

California Law. The industrial banking business conducted by FIL is governed by the California Revised Banking Law (Revised Banking Law), which became effective September 30, 2000, and the rules and regulations of the Commissioner of the DFI. All statutory and regulatory references to banks or commercial banks apply equally to industrial banks. An industrial bank may offer all loan and credit programs and deposit accounts that commercial banks may offer, with the significant exception that industrial banks are not authorized to offer demand deposit accounts. While FIL may not offer demand deposit accounts, it may offer money market deposit accounts.

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Federal Law. FIL s deposits are insured by the FDIC to the full extent permitted by law. As an insurer of deposits, the FDIC issues regulations, conducts examinations, requires the filing of reports and generally supervises the operations of institutions to which it provides deposit insurance. The approval of the FDIC is required prior to any merger, consolidation or change in control or the establishment or relocation of any branch office of FIL. This supervision and regulation is intended primarily for the protection of the Bank Insurance Fund maintained and administered by the FDIC.

Safety and Soundness Standards. As required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended, the federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems, and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees, and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish allowances that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Federal regulations require banks to maintain adequate allowances for potential loan losses. The Company has an internal loan review staff that continually reviews loan quality and ultimately reports to the Audit Committee. Management also performs an analysis which includes a detailed review of the classification and categorization of problem loans, assessment of the overall quality and collectibility of the loan portfolio, consideration of loan loss experience, trends in problem loans, concentrations of credit risk (by loan size, property types and geographic region), and current economic conditions. Based on this analysis, management, with the review and approval of the Audit Committee, determines the adequate level of allowance required. The allowance for loan losses is allocated to different aspects of the loans held for investment, but the entire allowance is available for the loan portfolio in its entirety.

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios.

Capital Standards. Each federal banking agency has adopted risk-based capital regulations under which a banking organization s capital is compared to the risk associated with its operations for both transactions reported on the balance sheet as assets as well as transactions which are off-balance sheet items, such as letters of credit and recourse arrangements. Under the capital regulations, the nominal dollar amounts of assets and the balance sheet equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as commercial loans.

In 1992, the FDIC adopted new regulations that defined five capital categories for purposes of implementing the requirements under FDICIA. The five capital categories, which range from well-capitalized to critically under-capitalized , are based on the level of risk-based capital measures. The minimum risk-based capital ratios for Tier-1 capital to risk-weighted assets and total risk-based capital to risk-weighted assets to be classified as well-capitalized are 6.0% and 10.0%, respectively. At December 31, 2004 FIL s Tier-1 capital and total risk-based capital ratios were 17.26% and 18.54%, respectively.

In addition, bank regulatory agencies established a leverage ratio to supplement the risk-based capital guidelines. The leverage ratio is intended to ensure that adequate capital is maintained against risks other than

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credit risk. A minimum required ratio of Tier-1 capital to total assets of 3.0% is required for the highest quality bank holding companies that are not anticipating or experiencing significant growth. All other banking institutions must maintain a leverage ratio of 4.0% to 5.0% depending upon an institution s particular risk profile. At December 31, 2004, FIL s leverage ratio was 12.71%.

Banking organizations that are experiencing or anticipating significant growth are expected to maintain capital ratios above the minimum levels. In addition to the uniform risk-based capital guidelines and leverage ratios that apply across the industry, the federal banking agencies have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. As of December 31, 2004, 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 a total risk-based capital as set forth in the paragraphs above; the FDIC and FIL, however, have agreed that FIL will maintain a Tier-1 Leverage Ratio of at least 8.5%. As of December 31, 2004, FIL s Tier-1 Leverage Ratio was 12.71%. Management does not anticipate any difficulties in maintaining a Tier-1 Leverage Ratio of at least 8.5% and there have been no conditions or events since the FDIC s most recent notification that management believes have changed FIL s categorization as well-capitalized.

Limitations on Dividends. FIL follows the limitations under the Revised Banking Law and its authorization to pay dividends is subject to provisions applicable to commercial banks, which is limited to the lesser of retained earnings or an industrial bank s net income for its last three fiscal years, less the amount of any distributions made by an industrial bank or by any majority owned subsidiary of it to any of its shareholders during such period.

In policy statements, the FDIC has advised insured institutions that the payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. Under the Financial Institutions Supervisory Act and the Financial Institutions Reform, Recovery and Enforcement Act of 1989, federal regulators also have authority to prohibit financial institutions from engaging in business practices which are considered to be unsafe or unsound. It is possible that, depending upon the financial condition of an industrial bank and other factors, such regulators could assert that the payment of dividends in some circumstances might constitute unsafe or unsound practices and could prohibit or limit the payment of dividends.

Other Regulation. FIL is also subject to federal consumer protection and other laws, including, but not limited to, the Truth In Savings Act, the Truth in Lending Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Home Ownership and Equity Protection Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the USA Patriot Act, and the Gramm-Leach-Bliley Act with regard to privacy of consumer financial information.

These laws, rules and regulations, among other things, impose licensing obligations, limit the interest rates and fees that can be charged, mandate disclosures and notices to consumers, mandate the collection and reporting of certain data regarding customers, regulate marketing practices and require the safeguarding of non-public information of customers.

The Company regularly monitors the laws, rules and regulations applicable to its business activities and integrates the many legal and regulatory requirements into its business policies, processes and procedures. The Company maintains quality assurance and compliance programs designed to detect and deter actions not in compliance with policy. The Company s residential real estate operation is also regularly reviewed by the Company s whole loan sale purchasers and securitization underwriters. The FDIC and DFI also perform reviews of the Company s policies, procedures and practices. The Company believes it is in compliance with the laws, rules and regulations applicable to it.

Real Estate Lending Practices. In addition to the federal Truth In Lending laws governing disclosure requirements and limitations upon residential mortgages and loans secured by a consumer s principal dwelling, California and other states have enacted statutes which set certain restrictions on such loans, such as, limits on

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annual percentage interest rate thresholds, limitations on prepayment penalties, capacity to repay, prohibition against sale of certain insurance, and specific disclosures. The states laws are intended to curb and eliminate abusive lending practices. Several California municipalities have such laws under consideration. The Company does not expect that such enactments will have any material effect upon its residential real estate lending business.

The Sarbanes-Oxley Act of 2002. On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) was passed into law. The Sarbanes-Oxley Act applies to all companies required to file periodic reports with the United States Securities and Exchange Commission and contains a number of significant changes relating to the responsibilities of directors, board committees, officers and auditors as well as reporting and governance obligations. The Company has implemented the necessary procedures and documentation to comply with the applicable current requirements of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that (beginning with the Company s December 31, 2004 report on Form 10-K) management assess the effectiveness of the Company s internal control over financial reporting. The Company s independent auditor is to then report on management s assessment. The Company has incurred, and expects that it will continue to incur, additional personnel and outside professional costs as a result of complying with Section 404.

Risk Factors

Operating Results and Financial Condition May Vary

The Company s profitability can be affected significantly by many factors including competition, the valuation of its loans and other assets, access to capital, funding sources, and secondary markets, the severity of loan losses, fluctuation in interest rates and the rate of inflation, legislation and regulations, court decisions, the judicial and regulatory climate and general economic conditions and trends, all of which are outside of the Company s control. In addition, results may be affected by the ability to contain expenses and to implement appropriate technological changes, particularly as a result of the significant growth experienced by the Company in its loan origination volume. The Company has expended significant effort to upgrade its infrastructure to meet the requirements of this growth and expected future growth; however, the Company could be adversely affected if it were not able to effectively manage the impact of this growth, or be able to reduce expenses if origination volumes were significantly reduced. Any of these factors could contribute to significant variation in the Company s results of operations from quarter to quarter and from year to year.

During periods when economic conditions are unfavorable, the Company may not be able to originate new loan products or maintain the credit quality of its loans, both in the loans it holds for investment and those it holds for sale, as well as for those loans that have been securitized, at previously attained levels. This may result in increased levels of non-performing assets and net credit losses. Changes in market interest rates, or in the relationships between various interest rates, could cause interest margins to be reduced and may result in significant changes in the prepayment patterns of the Company s loans. These risk factors could adversely affect the value of the loans (both held for investment and held for sale) and their related collateral, both of which could adversely affect the results of operations and financial condition. Additionally, material deterioration in the performance of the residential real estate loans that have been sold by the Company in either whole loan sales or securitizations could adversely impact the pricing and structure of such future transactions. The Company s ability to sell or securitize its loans is dependent upon the conditions and liquidity of the secondary markets, and the investor relationships that it has developed; the Company attempts to limit such risk through the continued development of existing and new relationships and maintaining appropriate liquidity levels within the Company.

The residential mortgage industry, in particular, is a cyclical business that generally performs better in a low interest rate environment such as the current one. The environment of historically low interest rates over the past two years has been very favorable for the Company s origination volumes. As the industry transitions to a higher interest rate environment, the demand for residential real estate loans is expected to decrease to some degree, which could result in lower origination volumes and net gains on residential real estate loans sold. In addition, other external factors, including tax laws, the strength of various segments of the economy and

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demographics of our lending markets, could influence the level of demand for residential real estate loans. Gain on the sale of loans is a large component of the Company s earnings and would be adversely impacted by a significant decrease in residential real estate loan origination volume or in the premiums received on the sale of the loans, as well as significant increases in the cost of originating the loans. The amount of gain on sale is also significantly impacted by the timing of loan sales and securitizations. A number of factors influence the timing of loan sales and securitizations, including the current market pricing of the loans, liquidity requirements and other objectives. The sale or securitization of loans have, from time to time, been delayed to a later period, and may be so delayed in future periods.

The Company has experienced strong net interest income margins on its loans held for investment and held for sale in the past two years, primarily as a result of the low interest rate environment. The transition to an increasing interest rate environment may put pressure on these margins as a result of lag, repricing and basis risk, as well as the impact of competition on the interest rates related to the various deposit products offered by FIL. Lag risk results from the inherent timing difference between the repricing of adjustable-rate assets and liabilities. Repricing risk is caused by the mismatch in the maturities between assets and liabilities. Basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices. These risks and the Company s ability to be effective in its interest rate risk management, especially during periods of significant growth in its loan origination volume, can produce volatility in net interest income during periods of interest rate movements and may result in lower net interest margins.

The Company s residential real estate loans in the unfunded pipeline or held prior to sale are exposed to changes in their fair value due to changes in interest rates. The Company enters into derivative financial instruments using hedging strategies to mitigate the impact of interest rate changes on an economic and accounting basis. The overall effectiveness of these hedging strategies are subject to market conditions, the Company s ability to accurately assess and estimate the characteristics of its hedged loans, and the quality of the Company s execution of its hedging transactions. Hedging is susceptible to pre-payment risk, market volatility and the quality of assumptions utilized; there can be no assurance as to how successful the Company s hedging activities will be under various interest rate scenarios.

Allowance for Loan Losses May Prove to Be Inadequate

The Company maintains an allowance for loan losses on its portfolio of loans held for investment in amounts that it believes is sufficient to provide adequate protection against potential losses. To mitigate for the somewhat higher potential risk of the lending that is primarily engaged in and for the impact that adverse economic developments could have on its loans, the Company lends primarily on a senior and secured basis. The Company also attempts to carefully evaluate the underlying collateral that secures these loans and to maintain underwriting standards that are designed to effect appropriate loan to collateral valuations and cash flow coverages. Although the Company believes that its level of allowance is sufficient to cover probable credit losses, the allowance could prove to be inadequate due to unanticipated adverse changes in economic conditions or discrete events that adversely affect specific borrowers, industries or markets. Any of these changes could impair the Company s ability to realize the expected value of the collateral securing certain of its loans or the timing of the realization thereof. The Company has increased the level of construction lending in its portfolio, for which it has limited historical loss patterns to utilize in its evaluation, and may be subject to actual loss experience at higher levels than anticipated. The Company also originates a substantial number of larger loans, and even one problem loan could cause a significant increase in the level of non-performing loans. A group of several large problem loans, or the impact from deteriorating conditions upon certain property type categories in which there exists a concentration, could cause the levels of non-performing loans and net-charge offs to significantly exceed historical levels previously experienced by the Company.

Competition May Adversely Affect the Company s Market Share and Operating Results

The Company competes in markets that are highly competitive and are characterized by factors that vary based upon loan product and geographic region. The markets in which the Company competes are typically characterized by a large number of competitors who compete for loans based primarily upon price, terms and loan structure. FIL also competes for deposits to fund its operations. Competition is highly price-sensitive and

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competitive forces could affect FIL s ability to source adequately priced deposits. The Company primarily competes with banks and mortgage and finance companies, many of which are larger and have greater financial resources, and are less reliant on the secondary mortgage market as an outlet for their loan production (due to their greater capacity to hold loans for investment rather than for sale). The competitive forces of these markets could adversely affect net interest income, gains on loan sales, loan origination volume, provision for loan losses or operating expenses.

Geographic and Property Type Concentrations of Business Could Adversely Affect the Company s Operations

While the Company attempts to diversify its loan origination by geographic region, the geographic concentration of commercial and residential real estate loans remains in California. At December 31, 2004, approximately 37% of the commercial real estate loans in the portfolio, and 32% of the residential real estate loans held for sale were collateralized by properties located in California. Adverse events in California, such as real estate market declines or the occurrence of natural disasters upon property located therein, may have a more significant adverse effect upon the operating results and financial condition than if a higher percentage of loans were collateralized by properties located outside of California. The Company also has concentrations in its commercial real estate loan portfolio as to collateral types, in particular, multi-family properties involving the conversion and construction of condominiums. While the Company believes that its underwriting guidelines are conservative and maintains enhanced risk management processes for its significant market and property type concentrations, the occurrence of adverse events or economic deterioration impacting markets or property type categories in which the Company has concentrations, may have a more significant adverse effect upon its financial condition than if the loan portfolio was more diverse.

Regulatory Developments May Adversely Affect the Company s Operations

FIL is subject to supervision and regulation by the DFI and the FDIC. Federal and state regulations prescribe certain minimum capital requirements and, while FIL is currently in compliance with such requirements, in the future, additional capital contributions to FIL from Fremont General, or other actions, may be necessary in order to maintain compliance with such requirements. Future changes in government regulation and policy could adversely affect the banking industry. Such changes in regulations and policies may place restrictions on or make changes to the Company s lending business, increase minimum capital requirements and increase the costs of compliance and sourcing deposits.

The sub-prime residential real estate lending business is subject to extensive laws, regulations and ordinances that establish enhanced protections and remedies for borrowers who receive such loans. Certain jurisdictions are examining the passage of further laws and rules, some of which extend beyond curbing predatory lending practices to restricting commonly accepted lending activities. While the federal government is examining rules for achieving a national standard that would create consistency among various jurisdictions, further implementation of restrictive regulatory developments could reduce loan origination volume and could restrict, potentially significantly, the secondary market (both whole loan sales and securitizations) for sub-prime residential real estate loans. Such a reduction in origination volume or a restriction in market conditions could have a material adverse impact upon the Company s future business prospects.

Liquidity Risk

The Company s principal financing needs for its operations are to fund the origination of commercial and residential real estate loans and to provide liquidity as needed for ongoing operations and obligations. The primary sources of funds to meet these needs currently include deposits, whole loan sales and securitizations, advances from the FHLB and capital. The Company also maintains warehouse lines of credit to supplement its primary funding sources. The Company s ability to attract and maintain deposits, to access the secondary markets to transact whole loan sales or securitizations of residential real estate loans, to access FHLB advances, to potentially obtain other sources of financing and to generate capital are critical to the ongoing operations of the Company. Market conditions, regulatory status and the financial condition of the Company,

in particular FIL, are the primary factors governing our ability to maintain liquidity and to increase capital. Adverse developments in any of these factors could have a negative impact upon the Company.

Available Information: Website Access to Periodic Reports

Fremont General s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available on the Fremont General website at *www.fremontgeneral.com* under Financials SEC Filings as soon as reasonably practicable after the reports have been filed electronically with the Securities and Exchange Commission (SEC). On or about April 7, 2005 our 2005 Proxy Statement will be available on the website. Copies of Fremont General s Form 10-K, Form 10-Q and other reports filed with the SEC can be obtained directly from Fremont General s website or from the SEC s website at *www.sec.gov*.

Information relating to corporate governance at the Company, including our Guidelines on Significant Governance Issues, Code of Ethics for Senior Financial Officers, Code of Conduct (for all employees including executive officers and directors) and Board committees and committee charters is available on the website under Corporate Governance. Information relating to transactions in Fremont General s securities by directors and officers is also available on the website under Financials SEC Filings.

We will provide any of the foregoing information without charge upon written request to, Fremont General Corporation, Investor Relations, 2425 Olympic Boulevard, Third Floor, Santa Monica, CA 90404, or by email request to *invrel@fmt.com*. Information relating to shareholder services, including book-entry share ownership and direct deposit of dividends, is available on the website under Company Shareholder Information.

Item 2. ***Properties***

The Company leases substantially all of its office facilities in various cities for its corporate and subsidiary operations. The Company considers these facilities to be adequate for its operating needs.

Item 3. ***Legal Proceedings***

Fremont General and its subsidiaries and affiliates are parties to various legal proceedings, which in some instances include claims for punitive damages, most of which are considered routine and incidental to their business. The Company believes that ultimate resolution or settlement of such matters will not have a material adverse effect on its consolidated financial position.

On June 2, 2004, the State of California Insurance Commissioner John Garamendi (the Commissioner), as statutory liquidator of Fremont Indemnity filed suit in Los Angeles Superior Court against Fremont General alleging improper utilization by Fremont General of certain net operating loss deductions (NOLs) allegedly belonging to its Fremont Indemnity subsidiary. This complaint involves issues that Fremont General considers were resolved in the Agreement among the DOI, Fremont Indemnity and Fremont General. The Agreement, dated July 2, 2002, was executed on behalf of the DOI by the Honorable Harry Low, the State of California Insurance Commissioner at that time. Fremont General has honored its obligations under the Agreement, and will continue to do so, and believes that the complaint mischaracterizes the terms of the Agreement and lacks merit.

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. On January 26, 2005 the Court issued its rulings dismissing all the causes of action in the complaint as follows:

The Court found that the Company properly utilized the NOLs in accordance with the Agreement. As a result of this finding, all causes of action were dismissed without leave to amend, except for the 7th cause of action for alleged concealment by the Company of a potential reinsurance dispute, which was dismissed with

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leave to amend. The Commissioner has the right to amend the 7th cause of action with allegations that are fact-specific. The Company believes that the 7th cause of action is without factual merit.

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 deduction for its investment in Fremont Indemnity.

The Commissioner subsequently filed a second complaint against Fremont General on behalf of Comstock Insurance Company, a former affiliate of Fremont Indemnity, which was subsequently merged into Fremont Indemnity. This case alleges similar causes of action regarding the usage of NOLs as in the Fremont Indemnity case as well as transactions with other insurance subsidiaries and affiliates of Fremont Indemnity. This matter has now been deemed a related case to the Fremont Indemnity case and is before the same judge. Fremont General is represented by the same counsel and has filed its Motion to Dismiss, which has not yet been heard and argued. The Company believes that this complaint also involves issues that were resolved by the Agreement and that the lawsuit lacks merit.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Fremont General s common stock is traded on the New York Stock Exchange (NYSE) under the trading symbol FMT. The following table sets forth the high and low sales prices of Fremont General s common stock as reported as composite transactions on the NYSE and the cash dividends declared on the common stock during each quarter presented.

	High	Low	Dividends Declared
2004			
1st Quarter	$31.00	$15.75	$0.05
2nd Quarter	30.72	16.76	0.06
3rd Quarter	23.19	16.90	0.06
4th Quarter	25.58	19.11	0.07
Total			$0.24
2003			
1st Quarter	$ 7.10	$ 4.15	$0.03
2nd Quarter	14.99	6.80	0.05
3rd Quarter	15.96	12.10	0.04
4th Quarter	19.09	12.72	0.05
Total			$0.17

On December 31, 2004, the closing sale price of Fremont General s common stock on the NYSE was $25.18 per share. There were 1,596 stockholders of record as of December 31, 2004.

The Company maintains a Supplemental Executive Retirement Plan (SERP) which had Fremont General common stock as a deemed investment option. The SERP Trust is a grantor trust subject to the Company s general creditors that holds investments designed to track the participant s deemed investments. When the Company allocated matching contributions to the SERP, the Company contributed shares of Fremont General common stock to the SERP Trust. SERP participants have investment discretion with respect to the deemed investment in Fremont General stock under their respective SERP accounts as governed by the terms of the SERP. From time to time SERP participants have directed the SERP s Trustee to redirect their deemed investments out of Fremont General common stock at which time, to effect the change, the SERP Trustee sold shares of Fremont General common stock for cash at various prices in open market transactions without the use of any underwriters. The aggregate amount sold during 2004 was 77,871 shares. There was no exemption for these transactions under the Securities Act of 1933. The Company has changed this practice. Any such shares of Fremont General common stock sold by the SERP Trustee are now repurchased by the Company under a share repurchase program authorized by the board of directors. Effective December 31, 2004, no further allocations will be made by employees or by the Company to the SERP. Effective January 1, 2005, the Company implemented the new Supplemental Executive Retirement Plan II (SERP II) that does not include Fremont General common stock as a deemed investment option and the Company s matching contribution allocations to the SERP II are made in cash.

Fremont General has paid cash dividends in every quarter since its initial public offering in 1977. While the intent is to continue to pay dividends, the decision to do so is made quarterly by the Board of Directors and is dependent on the earnings of the Company, management s assessment of future capital needs, and other factors.

Equity Compensation Plan Information

The following table sets forth for each of the Company s equity compensation plans, the number of shares of our common stock subject to outstanding stock options and Stock Rights, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants as of December 31, 2004.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans, Excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders	1,260,096(1)	$ 14.9375(2)	3,256,464(3)
Equity compensation plans not approved by security holders	148,954(4)		376,790(4)(5)
Total	1,409,050		3,633,254

(1) Represents shares issuable upon exercise of outstanding stock options awarded under the 1989 Non-Qualified Stock Option Plan and outstanding rights to acquire common stock allocated by the Company in the form of stock units under the SERP.

(2) Represents only the average exercise price of outstanding stock options awarded under the 1989 Non-Qualified Stock Option Plan. Stock units under the SERP are valued at distribution at the then current market value, a value that is not determinable in advance of the actual distribution. Accordingly, column (b) does not include a weighted-average exercise price of the outstanding stock units under the SERP.

(3) Represents shares available for options or restricted stock awards under the 1997 Stock Plan. Generally, the 1997 Stock Plan provides for the grant of stock options and/or restricted stock awards to officers, employees and directors of the Company. Restricted stock awards are subject to repurchase by the Company until restrictions on the shares lapse.

(4) The number of shares in column (a) represents outstanding rights to acquire common stock allocated by the Company in the form of stock units under the SERP and Excess Benefit Plan. The SERP and Excess Benefit Plan are deferred compensation plans. The Excess Benefit Plan does not contain a limit on the number of shares that may be issued to participants under this plan, and therefore, the number of shares in column (c) does not include the shares that may be delivered in the future under this plan.

(5) Represents shares available for the issuance of restricted stock awards under the 1995 Restricted Stock Award Plan (1995 Plan). Generally, the 1995 Plan provides for the grant of restricted stock awards to officers, employees and directors of the Company. The restricted stock awards are subject to repurchase by the Company until restrictions on the shares lapse.

Issuer Purchases of Equity Securities

The following table sets forth the issuer purchases of equity securities for the fourth quarter of 2004.

	Total Number of	Average	Total Number of Shares (or Units) Purchased as Part of Publicly	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May

Period	Shares (or Units) Purchased	Price Paid per Share (or Unit)	Announced Plans or Programs	Yet Be Purchased Under the Plans or Programs
October 1 31,				
November 1 30,	106,948	$22.78	106,948	
December 1 31,	55,609	$23.73	55,609	
Total	162,557	$23.10	162,557	1,558,584

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Item 6. ***Selected Financial Data***

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(Thousands of dollars, except per share data)				
Statements of Operations Data:					
Interest and fee income on loans	$ 657,664	$ 539,588	$ 433,366	$ 408,641	$ 379,243
Interest income other	13,660	6,285	4,406	14,272	28,868
	671,324	545,873	437,772	422,913	408,111
Interest expense	(202,565)	(182,163)	(191,839)	(254,703)	(261,306)
Net interest income	468,759	363,710	245,933	168,210	146,805
Provision for loan losses	6,842	(98,262)	(108,118)	(53,374)	(17,526)
Non-interest income	483,230	352,264	204,774	101,797	54,813
Non-interest expense	(357,161)	(253,591)	(165,699)	(123,707)	(108,427)
Income before income taxes	601,670	364,121	176,890	92,926	75,665
Income tax expense	(247,914)	(152,168)	(72,813)	(34,672)	(34,577)
Net income from continuing operations	353,756	211,953	104,077	58,254	41,088
Discontinued insurance operations		44,308	(77,762)	2,280	(547,400)
Net income (loss)	$ 353,756	$ 256,261	$ 26,315	$ 60,534	$ (506,312)
Per Share Data:					
Cash dividends declared	$ 0.24	$ 0.17	$ 0.08	$ 0.10	$ 0.24
Stockholders equity	13.12	8.75	5.29	5.05	4.18
Basic:					
Income from continuing operations	$ 4.98	$ 3.03	$ 1.55	$ 0.90	$ 0.65
Discontinued insurance operations		0.63	(1.16)	0.03	(8.68)
Net income (loss)	$ 4.98	$ 3.66	$ 0.39	$ 0.93	$ (8.03)
Diluted:					
Income from continuing operations	$ 4.80	$ 2.98	$ 1.55	$ 0.89	$ 0.65
Discontinued insurance operations		0.62	(1.16)	0.03	(8.68)
Net income (loss)	$ 4.80	$ 3.60	$ 0.39	$ 0.92	$ (8.03)
Weighted-Average Shares Used to Calculate Per Share Data (in thousands):					
Basic	71,050	69,993	67,009	64,955	63,052
Diluted	73,652	71,237	67,214	65,289	63,345

	December 31,				
	2004	**2003**	**2002**	**2001**	**2000**

			(Thousands of dollars)		
Balance Sheet Data:					
Total assets	$10,105,996	$9,525,287	$6,675,306	$8,014,284	$8,209,840
Loans held for investment	3,313,089	4,577,419	3,976,695	3,757,222	3,403,256
Deposits	7,546,980	6,633,166	4,545,723	4,256,422	3,849,211
FHLB advances	900,000	1,650,000	1,175,000	309,000	
Senior Notes due 2004		22,377	71,560	150,051	158,244
Senior Notes due 2009	180,133	188,987	188,658	188,330	214,621
LYONs	611	654	3,089	4,187	3,978
Junior Subordinated Debentures/TOPrS	103,093	100,000	100,000	100,000	100,000
Stockholders equity	1,013,648	664,732	399,017	357,773	295,765

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

General

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, commercial and residential real estate, both of which are done on a nationwide basis. FIL s commercial real estate lending operation includes nine regional offices and, as of December 31, 2004, had loans outstanding in 39 states. The residential real estate lending platform originated loans from 45 states through its five regional loan production centers during the fourth quarter of 2004. FIL funds its operations primarily through deposit accounts sourced in California 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). As such, FIL is regulated by the FDIC and the Department of Financial Institutions of the state of California (DFI).

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 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 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 loans that FIL originates are substantially all held for investment, with some loans participated out to reduce credit limit exposures. Loans are originated through 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, 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 designed to be somewhat counter-cyclical and to provide balance in varying economic cycles; however, 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 cyclicality 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:

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 through provisions (expense) that are recognized in the consolidated statements of operations.

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

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loan losses is maintained through provisions (expense) that are recognized in the consolidated statements of operations.

The principal 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 also utilizes forward loan sale commitments to provide liquidity and to hedge its residential mortgage loan pipeline and loans held for sale, as well as interest rate caps to hedge execution of its securitization transactions. The objective of our 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, and 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.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and notes thereto presented under Item 8. and the Business section presented under Item 1.

Results of Operations

The Company reported net income of $353.8 million for 2004 as compared to $256.3 million and $26.3 million for 2003 and 2002, respectively. The following table presents a summary of the Company s

income before income taxes, net income and certain operating ratios for the years ended December 31, 2004, 2003 and 2002, respectively:

	Year Ended December 31,		
	2004	2003	2002
	(Thousands of dollars, except percents)		
Interest and fee income on loans	$ 657,664	$ 539,588	$ 433,366
Interest income other	13,660	6,285	4,406
Total interest income	671,324	545,873	437,772
Interest expense	(202,565)	(182,163)	(191,839)
Net interest income	468,759	363,710	245,933
Provision for loan losses	6,842	(98,262)	(108,118)
Net interest income after provision for loan losses	475,601	265,448	137,815
Net gain on:			
Whole loan sales and securitizations of residential real estate loans	437,351	307,644	185,036
Sale of residual interests in securitized loans		17,503	
Extinguishment of debt	(105)	(1)	3,191
Loan servicing income	36,467	10,734	6,727
Mortgage servicing rights amortization and impairment	(12,244)	(1,050)	
Impairment on residual assets	(985)		
Other non-interest income	22,746	17,434	9,820
Operating expenses	(357,161)	(253,591)	(165,699)
Income before income taxes from continuing operations	601,670	364,121	176,890
Income tax expense	(247,914)	(152,168)	(72,813)
Net income from continuing operations	353,756	211,953	104,077
Discontinued insurance operations in regulatory liquidation, net of tax		44,308	