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FREMONT GENERAL CORP
Form 10-Q
November 14, 2003

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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, 2003

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 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 No.)

2020 Santa Monica Blvd.
Santa Monica, California 90404
(Address of principal executive offices)
(Zip Code)

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

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 the number of shares outstanding of each of the issuer's classes of common stock:

| CLASS | SHARES OUTSTANDING |
|--------------------------------|--------------------------------|
| Common Stock, \$1.00 par value | OCTOBER 31, 2003 75,937,000 |

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FREMONT GENERAL CORPORATION

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30,
2003

(UNAUDITED)
(THOUSANDS OF

ASSETS

| | | |
|--|--|--------------|
| Cash and cash equivalents | | \$ 707,310 |
| Investment securities available for sale at fair value | | 95,200 |
| Loans held for sale - net | | 3,093,788 |
| Loans receivable - net | | 4,438,074 |
| Mortgage servicing asset at fair value | | 3,041 |
| Residual interest in securitized loans at fair value | | 2,246 |
| Accrued interest receivable | | 35,854 |
| Deferred income taxes | | 194,996 |
| Other assets | | 88,797 |
| | | ----- |
| Total Assets | | \$ 8,659,306 |
| | | ===== |

LIABILITIES

| | | |
|--|--|--------------|
| Deposits: | | |
| Savings accounts | | \$ 1,159,378 |
| Money market deposit accounts | | 361,600 |
| Certificates of deposit: | | |
| Under \$100,000 | | 2,337,728 |
| \$100,000 and over | | 2,036,414 |
| | | ----- |
| | | 5,895,120 |
| Warehouse line of credit | | |
| | | - |
| Federal Home Loan Bank ("FHLB") advances | | 1,700,000 |
| Senior Notes due 2004 | | 22,367 |
| Senior Notes due 2009 | | 188,905 |
| Liquid Yield Option Notes due 2013 ("LYONs") | | 3,148 |
| Mandatorily redeemable preferred securities of subsidiary trust ("Preferred Securities") | | 100,000 |
| Other liabilities | | 154,028 |
| Liability to discontinued insurance operations | | - |
| | | ----- |
| Total Liabilities | | 8,063,568 |

Mandatorily redeemable preferred securities of subsidiary trust ("Preferred Securities")

STOCKHOLDERS' EQUITY

| | | |
|--|--|----------|
| Common stock, par value \$1 per share-- Authorized: 150,000,000 shares; Issued and outstanding: (2003 - 75,937,000 and 2002 - 75,397,000) | | 75,937 |
| Additional paid-in capital | | 294,413 |
| Retained earnings | | 263,720 |
| Deferred compensation | | (38,382) |
| Accumulated other comprehensive income | | 50 |
| | | ----- |

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| | |
|--|--------------|
| Total Stockholders' Equity | 595,738 |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 8,659,306 |
| | ===== |

See notes to consolidated financial statements on Form 10-Q.

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED SEPTEMBER 30, | |
|--|-------------------------------------|------------|
| | 2003 | 2002 |
| | ----- | |
| | (THOUSANDS OF DOLLARS, | |
| INTEREST INCOME: | | |
| Interest and fee income on loans | \$ 137,375 | \$ 111,309 |
| Interest income on investment securities | 993 | 1,211 |
| | ----- | ----- |
| | 138,368 | 112,520 |
| INTEREST EXPENSE: | | |
| Deposits | 30,402 | 35,721 |
| FHLB advances | 7,084 | 4,630 |
| Senior Notes, LYONs, Preferred Securities and other | 6,734 | 8,008 |
| | ----- | ----- |
| | 44,220 | 48,359 |
| Net interest income | 94,148 | 64,161 |
| Provision for loan losses | 29,407 | 33,764 |
| | ----- | ----- |
| Net interest income after provision for loan losses | 64,741 | 30,397 |
| NON-INTEREST INCOME: | | |
| Net gain on: | | |
| Whole loan sales and securitizations of residential real estate loans | 62,047 | 54,914 |
| Sale of residual interests in securitizations | - | - |
| Whole loan sales of other loans | - | 4 |
| Extinguishment of debt | - | 1,117 |
| Other | 6,114 | 3,746 |
| | ----- | ----- |
| | 68,161 | 59,781 |
| NON-INTEREST EXPENSE: | | |
| Compensation | 22,239 | 21,397 |
| Occupancy | 2,676 | 2,119 |
| Expenses and losses on real estate owned | 3,171 | 4,433 |
| Other | 10,344 | 10,046 |
| | ----- | ----- |
| | 38,430 | 37,995 |

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| | | |
|--|-----------|-----------|
| Income before income taxes | 94,472 | 52,183 |
| Income tax expense | 38,979 | 21,687 |
| | ----- | ----- |
| Net income from continuing operations | 55,493 | 30,496 |
| Discontinued insurance operations in regulatory liquidation, net of tax | - | - |
| | ----- | ----- |
| Net income | \$ 55,493 | \$ 30,496 |
| | ===== | ===== |
| PER SHARE DATA: | | |
| BASIC: | | |
| Net income from continuing operations | \$ 0.79 | \$ 0.45 |
| Discontinued insurance operations in regulatory liquidation, net of tax | - | - |
| | ----- | ----- |
| Net income | \$ 0.79 | \$ 0.45 |
| | ===== | ===== |
| DILUTED: | | |
| Net income from continuing operations | \$ 0.73 | \$ 0.41 |
| Discontinued insurance operations in regulatory liquidation, net of tax | - | - |
| | ----- | ----- |
| Net income | \$ 0.73 | \$ 0.41 |
| | ===== | ===== |
| CASH DIVIDENDS | \$ 0.04 | \$ 0.02 |
| WEIGHTED AVERAGE SHARES (IN THOUSANDS): | | |
| Basic | 70,301 | 67,292 |
| Diluted | 75,915 | 73,967 |

See notes to consolidated financial statements on Form 10-Q.

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FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTH SEPTEMBER | |
|---|-------------------------|---------|
| | ----- | |
| | 2003 | |
| | ----- | |
| | (THOUSANDS OF DOLLARS) | |
| OPERATING ACTIVITIES | | |
| Net income from continuing operations | \$ | 143,856 |
| Adjustments to reconcile net income from continuing operations to net cash used in operating activities: | | |
| Provision for loan losses | | 79,936 |
| Net decrease in residual interests in securitized loans | | 20,503 |

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| | |
|--|-------------|
| Deferred income tax expense | 78,580 |
| Depreciation and amortization | 14,412 |
| Change in other assets and liabilities | 34,774 |
| | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE LOANS HELD FOR SALE ACTIVITY | 372,061 |
| Originations of loans held for sale | (8,734,080) |
| Sales of and payments from loans held for sale | 7,313,437 |
| | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (1,048,582) |
| INVESTING ACTIVITIES | |
| Originations and advances funded for loans held for portfolio | (2,241,329) |
| Payments from and sales of loans held for portfolio | 1,672,817 |
| Investment securities available for sale: | |
| Purchases | (363,402) |
| Maturities or repayments | 651,411 |
| Cash contributions to discontinued insurance operations | (6,625) |
| Purchases of property and equipment | (13,615) |
| | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (300,743) |
| FINANCING ACTIVITIES | |
| Deposits accepted, net of repayments | 1,349,397 |
| FHLB advances, net of repayments | 525,000 |
| Extinguishment of Senior Notes and LYONS | (49,248) |
| Dividends paid | (7,506) |
| Stock options exercised | 1,744 |
| Decrease (increase) in deferred compensation plans | 872 |
| | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,820,259 |
| Increase in cash and cash equivalents | 470,934 |
| Cash and cash equivalents at beginning of year | 236,376 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 707,310 |
| | ===== |

See notes to consolidated financial statements on Form 10-Q.

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ON FORM 10-Q
(UNAUDITED)

NOTE A: BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These consolidated statements of Fremont General Corporation and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, adjustments (consisting of normal accruals) have been made as management considers necessary for fair presentations. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report

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on Form 10-K for the year ended December 31, 2002. Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

NOTE B: LOANS RECEIVABLE AND HELD FOR SALE

Loans receivable consist of commercial and residential real estate loans and syndicated commercial loans. Commercial real estate loans, which are primarily variable rate (based upon six-month LIBOR and a margin), represent loans secured primarily by first mortgages on properties such as office, retail, industrial, lodging, multi-family and commercial mixed-use properties. 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). As of September 30, 2003, the Company had \$1.16 billion in unfunded commitments under existing bridge and construction loans and \$301.7 million in unfunded commitments under loans not yet booked. Due to the variability in the timing of the funding of these unfunded commitments, and the extent to which they are ultimately funded, caution should be used in attempting to use these amounts 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 \$109.4 million, \$93.2 million, and \$114.7 million as of September 30, 2003, December 31, 2002, and September 30, 2002, respectively. The Company's commercial real estate loans receivable include mezzanine loans (second mortgage loans, subordinate to the Company's senior or first mortgage loans) in the amounts of \$35.3 million, \$21.8 million, and \$11.9 million as of September 30, 2003, December 31, 2002, and September 30, 2002, respectively. The interest rates charged by the Company on mezzanine loans are higher than the interest rates on the Company's senior or first mortgage loans; however, the mezzanine loans do carry the additional risk of a subordinated position in the borrowing entity's capital structure.

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Residential real estate loans receivable have loan terms for up to thirty years and are secured by first deeds of trust on single-family residences. The Company's residential real estate loans receivable and held for sale typically have a significant concentration (generally 70% or above) of "hybrid" loans which have a fixed rate of interest for an initial period (i.e. 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 lifetime and periodic 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". Syndicated commercial loans are variable rate senior commercial loans and are generally secured by substantially all of the assets of the borrower.

The following table details the net loans receivable as of September 30, 2003 (thousands of dollars):

| COMMERCIAL REAL ESTATE | RESIDENTIAL REAL ESTATE |
|---------------------------|----------------------------|
|---------------------------|----------------------------|

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| | | | |
|--|--------------|------------|----|
| | ----- | ----- | |
| Loans receivable outstanding | \$ 4,137,584 | \$ 630,327 | \$ |
| Participations sold | (109,359) | - | |
| | ----- | ----- | |
| Loans receivable outstanding, net of participations sold | 4,028,225 | 630,327 | |
| Deferred origination fees and costs | (30,030) | 6,155 | |
| | ----- | ----- | |
| Loans receivable outstanding before allowance for loan losses | 3,998,195 | 636,482 | |
| Allowance for loan losses | (192,517) | (12,453) | |
| | ----- | ----- | |
| Loans receivable-net | \$ 3,805,678 | \$ 624,029 | \$ |
| | ===== | ===== | = |

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 amortized cost or market. Market values are based upon current market yields required by investors for pools of similar loans. Amortized cost includes the unpaid loan principal balance, and SFAS No. 91 costs of origination, less the net amount of fees received from the borrower. The Company has established a valuation reserve for its loans held for sale based upon the type of loans held and the amount of time the loans have been held. Valuation adjustments to lower carrying values to market are recorded in current operations as a component of the net gain or loss on the sale of the residential real estate loans. Interest earned on loans held for sale is recorded as interest income until the date of sale.

NOTE C: RESIDUAL INTEREST IN SECURITIZED LOANS AND MORTGAGE SERVICING ASSET

During the third quarter of 2003, the Company sold \$561.6 million in residential real estate loans through a securitization transaction that incorporated the sale of a net interest margin (NIM) security. The securitization (inclusive of the NIM) was structured to meet the requirements of a sale of loans under SFAS No. 140 and, as a result, the loans sold were appropriately removed from the Company's balance sheet. The Company added to its consolidated balance sheet the cash received from the net proceeds of the transaction, as well as a mortgage servicing asset and a residual interest in the securitized loans. The Company services the loans in the securitization and the mortgage servicing asset represents the discounted amount of the excess of the estimated servicing fees to be received over the estimated costs to be incurred in performing the servicing functions. The residual interest in the securitized loans represents the discounted amount of the estimated future cash flows to be received by the Company from its residual interest in the securitization once the NIM has been paid off in full. The residual cash flows are subject to substantial credit, prepayment and interest rate risk on the loans sold into the securitization. The realization of the mortgage servicing asset is subject to substantial prepayment risk, as well as the risk of increases in the cost of performing the servicing functions. These assets are recorded at the Company's estimate of their fair value. The Company, in determining fair value, utilizes what it believes are appropriate prepayment, default, loss severity, interest rate, servicing cost and discount rate assumptions.

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NOTE D: DEBT - FREMONT GENERAL CORPORATION

The debt of the holding company, Fremont General Corporation ("FGC"), is detailed in the following table; none of the debt of FGC is guaranteed by the Company's industrial bank, Fremont Investment & Loan ("FIL") (thousands of dollars):

| | SEPTEMBER 30, 2003 ----- |
|---|--------------------------------|
| Senior Notes due 2004, less discount (\$18) | \$ 22,367 |
| Senior Notes due 2009, less discount (\$1,795) | 188,905 |
| Liquid Yield Option Notes due 2013, less discount (\$2,072) | 3,148 |
| Mandatorily redeemable preferred securities of subsidiary trust ("Preferred Securities") | 100,000 |
| | ----- |
| | \$ 314,420 |
| | ===== |

The Preferred Securities represent the "Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company junior subordinated debentures" that have been reclassified to a liability in the consolidated balance sheet at September 30, 2003 pursuant to SFAS No.

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150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The consolidated balance sheet at December 31, 2002 has not been restated pursuant to this new standard.

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

FIL funds its operations through the issuance of deposits which are insured up to certain limits by the Federal Deposit Insurance Corporation ("FDIC"), Federal Home Loan Bank ("FHLB") advances and warehouse lines of credit.

Certificates of deposit as of September 30, 2003 are detailed by maturity and rates as follows (thousands of dollars):

| AMOUNT ----- | MATURING BY SEPTEMBER 30, ----- | WEIGHTED AVERAGE RATE ----- |
|-----------------|---------------------------------------|-----------------------------------|
| \$ 4,133,197 | 2004 | 2.09% |
| 96,259 | 2005 | 3.63% |
| 94,225 | 2006 | 5.43% |
| 108 | 2007 | 4.34% |

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| | | |
|--------------|------|-------|
| 2,196 | 2008 | 4.73% |
| 48,157 | 2009 | 5.38% |
| ----- | | ----- |
| \$ 4,374,142 | | 2.23% |
| ===== | | ===== |

Of the total certificates of deposit outstanding at September 30, 2003, \$1.85 billion were obtained through brokers.

The FHLB advances are collateralized by loans pledged to the FHLB. The following table details the amounts due the FHLB as of September 30, 2003 by maturities and rates (thousands of dollars):

| AMOUNT | MATURING BY SEPTEMBER | WEIGHTED AVERAGE RATE |
|--------------|--------------------------|--------------------------|
| ----- | ----- | ----- |
| \$ 1,385,000 | 2004 | 1.96% |
| 315,000 | 2005 | 1.79% |
| ----- | | ----- |
| \$ 1,700,000 | | 1.93% |
| ===== | | ===== |

FIL entered into a \$500 million master loan and security agreement during July of 2003 with Greenwich Capital Financial Products, Inc. ("Greenwich"). This agreement, which expires in July 2004, provides secured financing solely for FIL's residential real estate loans held for sale or securitization and contains certain restrictive financial and other covenants, which require FIL to, among other things, maintain certain capital and liquidity levels. As of September 30, 2003, FIL was in compliance with the

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financial and other covenants contained in the agreement and there were no amounts outstanding under this facility.

During October of 2003, FIL entered into a \$500 million master repurchase agreement with Credit Suisse First Boston Mortgage Capital LLC ("CSFB"). This agreement, which also provides secured financing solely for FIL's residential real estate loans held for sale or securitization, expires in October 2004 and contains certain restrictive financial and other covenants that are similar to the Greenwich facility. Neither the Greenwich or the CSFB credit facilities are guaranteed by FGC.

NOTE F: INDUSTRIAL BANK REGULATORY CAPITAL

FIL is subject to regulatory capital guidelines as promulgated by the FDIC and is required to maintain certain capital ratios. The minimum ratios to be well-capitalized or adequately capitalized and FIL's actual regulatory capital and ratios as of September 30, 2003 were as follows (thousands of dollars):

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| | TIER 1 LEVERAGE (AVERAGE ASSETS) | | TIER 1 RISK-BASED CAPITAL (TO RISK WEIGHTED ASSETS) | | TOTAL CAPIT WEIGH |
|------------------------------|-------------------------------------|-------|---|--------|-------------------------|
| | AMOUNT | RATIO | AMOUNT | RATIO | AMOU |
| | ----- | ----- | ----- | ----- | ----- |
| Minimum ratios for: | | | | | |
| Well-capitalized | | 5.00% | | 6.00% | |
| Adequately capitalized | | 3.00% | | 4.00% | |
| Actual amounts and ratios: | | | | | |
| September 30, 2003 | \$ 729,185 | 9.80% | \$ 729,185 | 11.84% | \$ 808, |

NOTE G: DISCONTINUED INSURANCE OPERATIONS IN REGULATORY LIQUIDATION

In December 2002, the Company accrued a charge by setting up a reserve for the maximum amount of its potential future cash contributions to its discontinued workers' compensation insurance subsidiary, Fremont Indemnity Company ("FIC"). These future contributions included both mandatory and contingent cash contributions as per the July 2, 2002 Letter Agreement of Run-Off and Regulatory Oversight between the California Department of Insurance, the Company and FIC (the "Agreement"). The Agreement was included as an exhibit to the Company's Form 8-K which was filed on July 19, 2002. At December 31, 2002, the total amount of these future potential cash contributions was \$79.5 million (\$74.5 million at present value), payable ratably at \$13.25 million annually over a period of six years.

During the second quarter of 2003, the Company recognized a net of tax gain of \$44,308,000 from the reversal of this reserve for potential future cash contributions to FIC. The gain represents the total

maximum amount of cash contributions of \$72,875,000 (\$68,166,000 on a present value basis) that remained as of June 4, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation prior to March 1, 2004 extinguishes the obligation of the Company to provide any further cash contributions to FIC. The Insurance Commissioner of the State of California sought, and was granted, an order of conservation over FIC by the Superior Court of the State of California for the County of Los Angeles on June 4, 2003. The conservation order incorporates the Agreement and also provides that nothing in the order is intended to modify any of the provisions of the Agreement. The Insurance Commissioner of the State of California further sought, and was granted, an order of liquidation over FIC by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003.

While the Company owns 100% of the common stock of FIC, the assets and liabilities of FIC are excluded from the accompanying Consolidated Balance Sheet as the Company no longer has effective control over the operation of this subsidiary.

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NOTE H: EXTINGUISHMENT OF DEBT

The Company extinguished debt that resulted in gains that are included in non-interest income in the accompanying Consolidated Statement of Operations. The amounts are summarized in the following table:

| | THREE MONTHS ENDED SEPTEMBER 30, | | NI |
|---|-------------------------------------|-----------|-------------------|
| | 2003 | 2002 | |
| | | | 2 |
| | | | (THOUSANDS OF DOL |
| 7.70% SENIOR NOTES DUE 2004: | | | |
| Par Value of debt extinguished | \$ - | \$ 23,000 | \$ 49 |
| Pre-tax gain on extinguishment | - | 1,117 | |
| LIQUID YIELD OPTION NOTES DUE 2013 ("LYONS"): | | | |
| Principal amount of debt extinguished | \$ - | \$ - | \$ |
| Pre-tax gain on extinguishment | - | - | |

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NOTE I: TOTAL COMPREHENSIVE INCOME

The components of total comprehensive income are summarized in the following table:

| | THREE MONTHS ENDED SEPTEMBER 30, | |
|--|-------------------------------------|-----------|
| | 2003 | 2002 |
| | | |
| | | (THOUSAND |
| Net income | \$ 55,493 | \$ 30,496 |
| Other comprehensive income (loss): | | |
| Net change in unrealized gains during the period | 17 | (25) |
| Less deferred income tax (expense) benefit | (7) | 9 |
| Other comprehensive income (loss) | 10 | (16) |
| Total comprehensive income | \$ 55,503 | \$ 30,480 |
| | ===== | ===== |

NOTE J: OPERATIONS BY REPORTABLE SEGMENT

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The Company's business is engaged in four reportable segments: commercial real estate; residential real estate; syndicated commercial and retail banking. Additionally, there are certain corporate revenues and expenses, comprised primarily of investment income, interest expense and certain general and administrative expenses, that are not allocated to the reportable segments.

The following data for the three and nine months ended September 30, 2003 and 2002 provide certain information related to the reportable segment disclosure. Intersegment eliminations relate to the credit allocated to retail banking for operating funds provided to the other three reportable segments.

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| | COMMERCIAL REAL ESTATE ----- | RESIDENTIAL REAL ESTATE ----- | SYNDICATED COMMERCIAL ----- | RETAIL BANKING ----- | CORP ----- |
|---------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|----------------------------|---------------|
| (THOUSANDS OF DOLLARS) | | | | | |
| THREE MONTHS ENDED SEPTEMBER 30, 2003 | | | | | |
| Total revenues | \$ 79,377 | \$ 125,638 | \$ 49 | \$ 34,780 | \$ |
| Net interest income | 53,101 | 41,977 | (22) | 3,993 | (|
| Income before income taxes | 17,565 | 97,142 | (214) | (3) | (2 |
| THREE MONTHS ENDED SEPTEMBER 30, 2002 | | | | | |
| Total revenues | \$ 71,512 | \$ 97,721 | \$ 532 | \$ 39,730 | \$ |
| Net interest income | 41,914 | 24,118 | 223 | 3,811 | (|
| Income before income taxes | 2,702 | 73,022 | (4,680) | (4) | (1 |
| NINE MONTHS ENDED SEPTEMBER 30, 2003 | | | | | |
| Total revenues | \$ 233,488 | \$ 333,475 | \$ 684 | \$ 108,080 | \$ |
| Net interest income | 149,554 | 104,740 | (202) | 12,604 | (1 |
| Income before income taxes | 43,728 | 255,648 | 3,928 | (97) | (5 |
| NINE MONTHS ENDED SEPTEMBER 30, 2002 | | | | | |
| Total revenues | \$ 215,403 | \$ 205,827 | \$ 2,539 | \$ 122,841 | \$ |
| Net interest income | 122,029 | 61,247 | 1,095 | 11,309 | (1 |
| Income before income taxes | 44,852 | 135,655 | (13,250) | 1,312 | (4 |

NOTE K: EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and nine months ended September 30, 2003 and 2002:

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| | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|-----------|
| | 2003 | 2002 |
| | (IN THOUSANDS, EXC | |
| Net income from continuing operations (numerator for basic earnings per share) | \$ 55,493 | \$ 30,496 |
| Effect of dilutive securities: | | |
| LYONs | 23 | 23 |
| Net income from continuing operations available to common stockholders after assumed conversions (numerator for diluted earnings per share) | \$ 55,516 | \$ 30,519 |
| Weighted-average shares (denominator for basic earnings per share) | 70,301 | 67,292 |
| Effect of dilutive securities: | | |
| Restricted stock | 5,386 | 6,470 |
| LYONs | 202 | 205 |
| Stock options | 26 | - |
| Dilutive potential common shares | 5,614 | 6,675 |
| Adjusted weighted-average shares and assumed conversions (denominator for diluted earnings per share) | 75,915 | 73,967 |
| Basic earnings per share | \$ 0.79 | \$ 0.45 |
| Diluted earnings per share | \$ 0.73 | \$ 0.41 |

NOTE L: NEW ACCOUNTING STANDARDS

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" that amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition to the fair value method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company believes that the impact of this new standard on the Company's financial position and results of operations will be consistent with the SFAS No. 123 pro forma disclosure.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46") that requires the consolidation of

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variable-interest entities ("VIEs") if the business enterprise has a controlling financial interest in the VIE. Also, FIN 46 requires disclosure about a VIE that a company holds a significant interest in, but is not required to consolidate. The implementation date of this interpretation has been deferred until December 31, 2003 for calendar year public companies that held variable interests in entities that were acquired prior to February 1, 2003. The Company does not believe the implementation of FIN 46 will have a significant impact on the Company's financial position and results of operations.

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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 results as a result of significant risks, uncertainties and factors beyond the Company's control (as well as the various assumptions utilized in determining the Company's expectations) 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 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;
- 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;

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- o the ability to collect and realize the amounts outstanding, and the timing thereof, of loans and foreclosed real estate;
- o the variability in determining the level of the allowance for loan losses and the fair value of the mortgage servicing assets and residual interests in securitizations;
- 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;

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- o the impact and cost of adverse state and federal legislation and regulations, litigation, court decisions and changes in the judicial climate;
- o the ability of the Company to utilize the net operating loss carryforwards currently held and 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 other events, risks and uncertainties discussed elsewhere in this Form 10-Q 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" or when combined with its subsidiaries "the Company") is a financial services holding company. The Company's financial services business is consolidated within Fremont General Credit Corporation ("FGCC"), which is engaged in commercial and residential real estate lending nationwide through its California-chartered industrial bank subsidiary, Fremont Investment & Loan ("FIL"). Additionally, there are certain corporate revenues and expenses, comprised primarily of investment income, interest expense and certain general and administrative expenses, which are not allocated by Fremont to FGCC.

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, 2002.

RESULTS OF OPERATIONS

The Company reported net income of \$55,493,000 and \$188,164,000 for the

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third quarter and nine months ended September 30, 2003, respectively. This is compared to net income of \$30,496,000 and \$72,091,000 for the respective periods in 2002. The following table presents a summary of the Company's income before income taxes and net income for the quarterly and nine month periods ended September 30, 2003 and 2002, respectively:

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| | THREE MONTHS ENDED SEPTEMBER 30, | |
|--|-------------------------------------|-------------|
| | 2003 | 2002 |
| | | (THOUSANDS) |
| Income (loss) before income taxes: | | |
| Financial services | \$ 110,715 | \$ 68,045 |
| Unallocated corporate interest and other expenses | (16,243) | (15,862) |
| Income before income taxes from continuing operations | 94,472 | 52,183 |
| Income tax expense | (38,979) | (21,687) |
| Net income from continuing operations | 55,493 | 30,496 |
| Discontinued insurance operations in regulatory liquidation, net of tax | - | - |
| Net income | \$ 55,493 | \$ 30,496 |

The following table summarizes the Company's financial services operation's income before taxes for the respective periods indicated:

| | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|-------------|
| | 2003 | 2002 |
| | | (THOUSANDS) |
| FINANCIAL SERVICES | | |
| Interest and fee income on loans | \$ 137,375 | \$ 111,309 |
| Interest income on investment securities | 884 | 1,011 |
| Total interest income | 138,259 | 112,320 |
| Interest expense | 38,020 | 40,393 |
| Net interest income | 100,239 | 71,927 |
| Provision for loan losses | 29,407 | 33,764 |
| Net interest income after provision for loan losses | 70,832 | 38,163 |
| Net gain on: | | |
| Whole loan sales and securitizations of residential | | |

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| | | |
|---|------------|-----------|
| real estate loans | 62,047 | 54,914 |
| Sale of residual interests in securitizations | - | - |
| Other non-interest income | 6,030 | 3,750 |
| Operating expenses | (28,194) | (28,782) |
| | ----- | ----- |
| Income before income taxes | \$ 110,715 | \$ 68,045 |
| | ===== | ===== |

THIRD QUARTER OF 2003 AS COMPARED TO THIRD QUARTER OF 2002

The Company recorded net income from continuing operations of \$55.5 million for the third quarter of 2003 as compared to \$30.5 million for the third quarter of 2002. This increase is due to an increase in the pre-tax income generated by the Company's financial services operation.

The Company's financial services operation recorded income before taxes of \$110.7 million for the third quarter of 2003 as compared to \$68.0 million for the third quarter of 2002. The increase in income before taxes for the third quarter of 2003 represents a 63% increase over the results for the

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third quarter of 2002 and is primarily a result of increased levels of net interest income and net gain on the sale of residential real estate loans, and a lower provision for loan losses.

The following table identifies the interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins for the Company's financial services operation for the third quarter of 2003 and 2002:

| | THREE MONTHS ENDED SEPTEMBER | | | |
|---|---------------------------------|------------|----------|------------|
| | ----- | | | |
| | 2003 | | | |
| | AVERAGE | | YIELD/ | AVERAGE |
| | BALANCE | INTEREST | COST (1) | BALANCE |
| | ----- | ----- | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT P | | | |
| Interest-earning assets (2): | | | | |
| Commercial real estate loans | \$ 3,942,746 | \$ 77,220 | 7.77% | \$ 3,522,0 |
| Residential real estate loans (3) | 3,321,231 | 60,106 | 7.18 | 1,890,2 |
| Syndicated commercial loans | 7,291 | 49 | 2.67 | 47,7 |
| Investment securities | 171,132 | 884 | 2.05 | 158,4 |
| | ----- | ----- | ----- | ----- |
| Total interest-earning assets | \$ 7,442,400 | \$ 138,259 | 7.37% | \$ 5,618,4 |
| | ===== | ===== | ===== | ===== |
| Interest-bearing liabilities: | | | | |
| Time deposits | \$ 3,796,110 | \$ 23,293 | 2.43% | \$ 3,358,0 |
| Savings deposits | 1,452,293 | 7,109 | 1.94 | 1,087,3 |

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| | | | | |
|--|--------------|----------------|-------|------------|
| Debt with FHLB | 1,368,837 | 7,085 | 2.05 | 612,9 |
| Warehouse line of credit | 29,109 | 176 | 2.40 | |
| Other | 31,636 | 357 | 4.48 | 8,3 |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities | \$ 6,677,985 | \$ 38,020 | 2.26% | \$ 5,066,7 |
| | ===== | ===== | ===== | ===== |
| Net interest income | | \$ 100,239 | | |
| | | ===== | | |
| Percent of average interest-earning assets(1): | | | | |
| Interest income | | 7.37% | | |
| Interest expense | | 2.03% | | |
| | | ----- | | |
| Net interest margin | | 5.34% | | |
| | | ===== | | |

The net interest income for the third quarter of 2003 was \$100.2 million as compared to \$71.9 million for the third quarter of 2002. The increase in net interest income is primarily a result of an increase in the average interest-earning assets. Average interest-earning assets increased 32% to \$7.44 billion during the third quarter of 2003, as compared to \$5.62 billion during the third quarter of 2002. The net interest income margin also increased to an annualized 5.34% for the third quarter of 2003 from 5.08% for the third quarter of 2002. The increase in the Company's net interest margin is due

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primarily to higher net spreads between the commercial real estate loan yields and the effective cost of funds employed to fund these assets as the interest yields on deposits declined on a quarter-to-quarter comparison more than the yields on commercial real estate loans did. This is due in part to the presence of interest rate floors (in which the total of the variable base rate, such as six-month LIBOR, plus the related spread on a commercial real estate loan will not contractually drop below a certain absolute level) on a significant number of the Company's commercial real estate loans. The higher margin contribution from the commercial real estate portfolio was partially offset by a compression in the margin for residential real estate loans. The residential real estate loans are primarily comprised of loans held for sale which were predominately originated in or just before the quarterly periods presented; loans originated in or before the third quarter of 2003 had lower margins than in the third quarter of 2002 due to differing interest rate conditions.

The net gain on the sale of residential real estate loans, net of reductions in the carrying valuations of loans held for sale, increased from \$54.9 million in the third quarter of 2002 to \$62.0 million for the third quarter of 2003. This increase is primarily attributable to a significant increase in the volume of loans sold in the two comparable quarters, offset by a significantly lower gross premium received on loan sales during the quarter of 2003, as compared to the third quarter of 2002. A total of \$2.78 billion in loans were sold (including loans sold via securitization) during the third quarter of 2003, as compared to loan sales of \$1.65 billion during the third quarter of 2002. The average gross premium on loans sold during the third quarter of 2002 was 5.26% as compared to an average of 4.32% for the third quarter of 2003. The average gross premiums realized during the third quarter of

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2002 is outside of the normal parameters expected to be experienced by the Company; the average realized during the third quarter of 2003 is consistent with the historical range of expected normal market conditions. Such premiums have exhibited, and are expected to continue to exhibit, variability (often significant) based on various economic and interest rate environments. The net gain percentage (net gain after allocated costs and adjustments to the carrying valuations of loans held for sale, divided by net loans sold) on these sales decreased from 3.33% in the third quarter of 2002 to 2.23% in the third quarter of 2003.

The provision for loan losses decreased to \$29.4 million for the third quarter of 2003 as compared to \$33.8 million for the third quarter of 2002. The moderate decrease in loss provision for the third quarter of 2003 is primarily due to an expected higher realization on certain of the Company's non-accrual loans and foreclosed commercial real estate properties.

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The Company's net loans receivable (excluding loans held for sale), before the allowance for loan losses, were approximately \$4.65 billion at September 30, 2003, as compared to \$4.14 billion and \$4.11 billion at December 31, 2002 and September 30, 2002, respectively. The Company's residential real estate loans held for sale have increased from \$1.23 billion at September 30, 2002 to \$3.09 billion at September 30, 2003; this increase is reflective of a significant increase in loan production volume - during the third quarter of 2002, residential real estate loan originations totaled \$1.75 billion as compared to \$3.92 billion for the third quarter of 2003.

The unallocated corporate interest and other expense loss before taxes for the quarter ended September 30, 2003, was \$16.2 million as compared to \$15.9 million for the same quarter in 2002. While interest expense was \$1.4 million lower in the third quarter of 2003 (due to lower levels of holding company debt outstanding) than in the third quarter of 2002, compensation expense was higher by \$0.8 million during the third quarter of 2003; in addition, during the third quarter of 2002, the Company realized a gain on the extinguishment of debt of \$1.1 million.

During the third quarter of 2002, the Company extinguished \$23.0 million in principal amount of its 7.70% Senior Notes due 2004, resulting in a pre-tax gain of \$1.1 million. The Company did not extinguish any of its Senior Notes during the third quarter of 2003.

Income tax expense of \$39.0 million and \$21.7 million for the quarters ended September 30, 2003 and 2002, respectively, represents effective tax rates of 41.3% and 41.6%, respectively, on income before income taxes from continuing operations of \$94.5 million and \$52.2 million for the same respective periods. The effective tax rates for both periods presented are different than the federal enacted tax rate of 35%, due mainly to various state income tax provisions within the Company's financial services operation.

FIRST NINE MONTHS OF 2003 AS COMPARED TO FIRST NINE MONTHS OF 2002

The Company recorded net income from continuing operations of \$143.9 million for the first nine months of 2003 as compared to \$72.1 million for the first nine months of 2002. This represents an increase of 99% for the first nine months of 2003 over the first nine months of 2002. This increase is due to an increase in the Company's financial services operation's pre-tax income results.

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The Company's total net income for the first nine months of 2003 was \$188.2 million, which is comprised of the \$143.9 million in net income from continuing operations and an after tax gain of \$44.3 million

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(recognized during the second quarter of 2003) on the reversal of the accrual for the potential cash contributions to the Company's discontinued insurance operations in regulatory liquidation.

For the first nine months of 2003, the Company's financial services operation recorded income before taxes of \$294.0 million, as compared to \$164.3 million for the first nine months of 2002. This increase represents a 79% increase over the results for the first nine months of 2002. The increase is primarily the result of increased levels of net interest income and net gain on the sale of residential real estate loans, a net gain on the sale of residual interests in three securitizations in the amount of \$17.5 million, offset by increases in the provision for loan losses and operating expenses.

The following table identifies the interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins for the Company's financial services operation for the first nine months of 2003 and 2002:

| | NINE MONTHS ENDED SEPTEMBER | | | |
|---|-------------------------------|------------|--------------------|--------------------|
| | 2003 | | | |
| | AVERAGE BALANCE | INTEREST | YIELD/ COST (1) | AVERAGE BALANCE |
| | (THOUSANDS OF DOLLARS, EXCEPT | | | |
| Interest-earning assets (2): | | | | |
| Commercial real estate loans | \$ 3,846,399 | \$ 225,573 | 7.84% | \$ 3,492,5 |
| Residential real estate loans (3) | 2,764,769 | 154,678 | 7.48 | 1,589,7 |
| Syndicated commercial loans | 13,843 | 149 | 1.44 | 69,1 |
| Investment securities | 180,069 | 3,200 | 2.38 | 139,5 |
| | \$ 6,805,080 | \$ 383,600 | 7.54% | \$ 5,290,9 |
| | ===== | ===== | ===== | ===== |
| Interest-bearing liabilities: | | | | |
| Time deposits | \$ 3,676,327 | \$ 73,996 | 2.69% | \$ 3,273,1 |
| Savings deposits | 1,341,291 | 20,690 | 2.06 | 1,058,8 |
| Debt with FHLB | 1,033,937 | 17,920 | 2.32 | 448,6 |
| Warehouse line of credit | 9,810 | 176 | 2.40 | |
| Other | 20,681 | 718 | 4.64 | 5,7 |
| | \$ 6,082,046 | \$ 113,500 | 2.50% | \$ 4,786,5 |
| | ===== | ===== | ===== | ===== |

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| | |
|--|---------------------|
| Net interest income | \$ 270,100 ===== |
| Percent of average interest-earning assets(1): | |
| Interest income | 7.54% |
| Interest expense | 2.23% |
| | ----- |
| Net interest margin | 5.31% |
| | ===== |

Net interest income for the first nine months of 2003 was \$270.1 million as compared to \$201.4 million for the first nine months of 2002. The increase in net interest income is primarily a result of an increase in the average interest-earning assets. Average interest-earning assets increased 29% to \$6.81 billion during the first nine months of 2003 from \$5.29 billion for the first nine months of 2002. The net interest income margin also increased to an annualized 5.31% during the first nine months of 2003 as compared to 5.09% during the first nine months of 2002. The margin expansion is a result of the Company's cost of funds decreasing more than the yields on the Company's commercial real estate portfolio, offset by margin compression experienced in the residential real estate loans held for sale.

The gain on the sale of residential real estate loans increased during the first nine months of 2003 primarily as a result of significantly increased levels of loan sales (including loans sold via securitization). The net gain on sale from whole loan sales and securitizations increased to \$151.5

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million during the first nine months of 2003, as compared to \$96.1 million for the same period in 2002. The increase in loan sales volume is driven by a significant increase in loan origination volume. During the first nine months of 2003 and 2002, total loan sales were \$7.31 billion and \$3.82 billion, respectively, and loan origination volume was \$9.16 billion and \$4.61 billion, respectively. The average gross premium on loans sold during the first nine months of 2003 was 4.28% as compared to 4.53% for the same period in 2002. The net gain percentage (net gain after allocated costs and adjustments to the carrying valuations of loans held for sale, divided by net loans sold) for the first nine months of 2003 was 2.07% as compared to 2.52% for the first nine months of 2002, reflecting the decrease in gross premiums realized.

The provision for loan losses increased to \$79.9 million for the first nine months of 2003 as compared to \$70.2 million for the first nine months of 2002; this increase is primarily reflective of an increasingly higher level of commercial real estate non-performing assets during the first nine months of 2003.

During the first nine months of 2003, the Company extinguished \$49.3 million in principal amount of its 7.70% Senior Notes due 2004, with a pre-tax gain of \$25,000. During the first nine months of 2002, the Company extinguished \$73.8 million in principal amount of its 7.70% Senior Notes due 2004 and \$2.3 million in principal amount at maturity of its LYONs, with a pre-tax gain of \$3.0 million.

During the second quarter of 2003, the Company recognized a net of tax gain

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of \$44,308,000 from the reversal of its reserve for potential future cash contributions to FIC. The gain represents the total maximum amount of cash contributions of \$72,875,000 (\$68,166,000 on a present value basis) that remained as of June 4, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation prior to March 1, 2004 extinguishes the obligation of the Company to provide any further cash contributions to FIC. The Insurance Commissioner of the State of California sought, and was granted, an order of conservation over FIC by the Superior Court of the State of California for the County of Los Angeles on June 4, 2003. The conservation order incorporates the Agreement and also provides that nothing in the order is intended to modify any of the provisions of the Agreement. The Insurance Commissioner of the State of California further sought, and was granted, an order of liquidation over FIC by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003.

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Income tax expense of \$101.0 million and \$50.1 million for the nine month periods ended September 30, 2003 and 2002, respectively, represents effective tax rates of 41.3% and 41.0%, respectively, on income before taxes from continuing operations of \$244.9 million and \$122.2 million for the same respective periods. The effective tax rates for both periods differ from the federal enacted tax rate of 35% primarily due to various state income tax provisions within the Company's financial services operation.

LOANS RECEIVABLE AND HELD FOR SALE

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

| | SEPTEMBER 30, 2003 | DECEMBER 31 2002 |
|--|------------------------|---------------------|
| | ----- | ----- |
| | (THOUSANDS OF DOLLARS) | |
| Commercial real estate loans: | | |
| Bridge | \$ 1,761,328 | \$ 1,712,085 |
| Permanent | 1,352,036 | 1,393,427 |
| Construction | 637,444 | 328,974 |
| Single tenant credit | 277,417 | 296,787 |
| | ----- | ----- |
| | 4,028,225 | 3,731,273 |
| Residential real estate loans (first trust deeds) | 630,327 | 392,061 |
| Syndicated commercial loans | 6,958 | 26,216 |
| Other - consumer loans | 4,197 | 4,272 |
| | ----- | ----- |
| | 4,669,707 | 4,153,822 |
| Deferred origination fees and costs | (24,595) | (15,937) |
| | ----- | ----- |
| Loans receivable before allowance for loan losses | 4,645,112 | 4,137,885 |
| Allowance for loan losses | (207,038) | (161,190) |
| | ----- | ----- |
| Loans receivable, net of allowance for loan losses | \$ 4,438,074 | \$ 3,976,695 |
| | ===== | ===== |

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As of September 30, 2003, approximately 38.1% and 12.8% of the Company's commercial real estate loans outstanding were secured by properties located within California and New York, respectively; no other state represented greater than 8% of the loan portfolio. The Company's continued geographic expansion has resulted in a decline in the percentage of commercial real estate loans secured by properties within California from 47.6% at December 31, 2002 to 38.1% as of September 30, 2003. The Company's largest single individual commercial real estate loan outstanding at September 30, 2003 was \$68.3 million with a total loan commitment of \$73.2 million. The Company, however, has two separate loans, which are cross-collateralized and cross-defaulted, with the same investment fund on a related real estate project. The combined loan principal outstanding and total loan commitment of these two loans at September 30, 2003 is \$75.0 million and \$81.9 million,

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respectively. The Company's largest net commitment for a single loan at September 30, 2003 was \$104.0 million; this represents the maximum potential loan amount to the borrower. In addition, the commercial real estate loan portfolio's largest concentration by common investor or sponsor totaled \$124.5 million in loan principal outstanding and \$148.8 million in total loan commitment at September 30, 2003, and is comprised of four separate loans, each of which was performing as of September 30, 2003.

The following table stratifies the commercial real estate portfolio by loan amounts outstanding as of September 30, 2003 (in thousands of dollars, except percents and number of loans):

| LOAN SIZE RANGE | NUMBER OF LOANS | TOTAL LOANS OUTSTANDING | % |
|-------------------------------------|--------------------|----------------------------|------|
| \$0 - \$1 million | 125 | \$ 26,705 | 1% |
| > \$1 million - \$5 million | 225 | 638,242 | 16% |
| > \$5 million - \$10 million | 105 | 765,441 | 19% |
| > \$10 million - \$15 million | 46 | 560,164 | 14% |
| > \$15 million - \$20 million | 29 | 484,964 | 12% |
| > \$20 million - \$30 million | 29 | 720,279 | 18% |
| > \$30 million - \$40 million | 14 | 488,572 | 12% |
| > \$40 million - \$50 million | 2 | 91,750 | 2% |
| > \$50 million | 4 | 252,108 | 6% |
| | 579 | \$ 4,028,225 | 100% |
| | ===== | ===== | === |

The following tables report the non-performing asset classifications, accruing loans past due 90 days or more, loan loss experience and allowance for loan losses reconciliation of the financial services operation as of or for the respective periods ended:

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| | SEPTEMBER 30, 2003 | DECEMBER 31, 2002 |
|---|--|----------------------|
| | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT WHERE SHOWN OTHERWISE) | |
| Non-accrual loans receivable: | | |
| Commercial real estate loans | \$ 81,845 | \$ 70,030 |
| Residential real estate loans | 7,246 | 5,600 |
| Syndicated commercial loans | 6,854 | 11,230 |
| | ----- | ----- |
| | 95,945 | 86,870 |
| Real estate owned ("REO"): | | |
| Commercial real estate loans | 36,426 | 10,590 |
| Residential real estate loans | 856 | 310 |
| | ----- | ----- |
| | 37,282 | 10,910 |
| | ----- | ----- |
| Total non-performing assets ("NPA") - loans receivable related | \$ 133,227 | \$ 97,780 |
| | ===== | ===== |
| NPA to total loans receivable and REO | 2.85% | 2.3% |
| Allowance for loan losses to total loans receivable | 4.46% | 3.9% |
| Allowance for loan losses to NPA | 155.4% | 164.0% |
| Accruing loans receivable past due 90 days or more: | | |
| Commercial real estate loans | \$ 6,050 | \$ - |
| Residential real estate loans | - | - |
| Other | - | - |
| | ----- | ----- |
| Total accruing loans receivable past due 90 days or more | \$ 6,050 | \$ - |
| | ===== | ===== |

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| | THREE MONTHS ENDED SEPTEMBER 30, | |
|---|--|------------|
| | ----- | ----- |
| | 2003 | 2002 |
| | ----- | ----- |
| | (THOUSANDS OF DOLLARS, EXCEPT WHERE SHOWN OTHERWISE) | |
| Beginning allowance for loan losses | \$ 191,105 | \$ 117,914 |
| Provision for loan losses | 29,407 | 33,764 |
| Reclass of allowance for loan commitments | - | (3,259) |
| Charge-offs: | | |
| Commercial real estate loans | (14,000) | (7,492) |
| Residential real estate loans - portfolio | (81) | - |

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| | | |
|---|------------|------------|
| Syndicated commercial loans | - | (4,999) |
| Other | - | - |
| | ----- | ----- |
| Total charge-offs | (14,081) | (12,491) |
| | ----- | ----- |
| Recoveries: | | |
| Commercial real estate loans | 569 | 1,694 |
| Residential real estate loans - portfolio | 38 | 7 |
| Syndicated commercial loans | - | - |
| Other | - | - |
| | ----- | ----- |
| Total recoveries | 607 | 1,701 |
| | ----- | ----- |
| Net charge-offs | (13,474) | (10,790) |
| | ----- | ----- |
| Ending allowance for loan losses | \$ 207,038 | \$ 137,629 |
| | ===== | ===== |
| | | |
| Net loan charge-offs to average total loans receivable* | 1.19% | 1.04% |

* Annualized.

| | SEPTEMBER 30, 2003 | DECEMBER 31 2002 |
|---|-----------------------|---------------------|
| | ----- | ----- |
| | (THOUSANDS OF DO | |
| Allocation of allowance for loan losses: | | |
| Commercial real estate loans | \$ 192,517 | \$ 147,228 |
| Residential real estate loans - portfolio | 12,453 | 7,844 |
| Syndicated commercial loans | 2,067 | 6,118 |
| Other | 1 | - |
| | ----- | ----- |
| Total allowance for loan losses | \$ 207,038 | \$ 161,190 |
| | ===== | ===== |

Non-performing assets related to loans receivable were \$133.2 million as of September 30, 2003. This is 2.85% of the total loan portfolio and REO as of September 30, 2003. This is compared to \$88.6 million in total non-performing assets as of September 30, 2002, which was 2.16% of the total loan portfolio and REO as of that date. As of September 30, 2003, \$118.3 million of the total \$133.2 million in non-performing assets were related to the commercial real estate portfolio. The \$118.3

million was comprised of sixteen non-accrual loans (the largest having a balance of \$25.7 million) and ten REO properties (the largest having a balance of \$7.9 million). The level of non-performing assets fluctuates and individual commercial real estate loans can have a material impact upon the total.

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During the third quarter of 2003, there were eight commercial real estate loans restructured as to their terms and included in accrual status at September 30, 2003. The total loan principal outstanding under these eight loans was \$72.4 million at September 30, 2003 and the Company incurred \$2.8 million in charge-offs related to the restructuring of these loans during the third quarter of 2003. During the third quarter of 2002, there were no loans, that were restructured and included in accrual status.

The allowance for loan losses, as a percentage of total loans receivable, excluding loans held for sale, increased to 4.46% as of September 30, 2003, as compared to 3.35% at September 30, 2002. The increase in the allowance for loan losses during the third quarter of 2003, as compared to the third quarter of 2002, is primarily due to an increased level of commercial real estate loan non-performing assets as of September 30, 2003. Total net charge-offs in the third quarter of 2003 totaled \$13.5 million, as compared to \$10.8 million for the third quarter of 2002. The \$13.5 million in net charge-offs for the third quarter of 2003 was substantially all related to commercial real estate loans; of the \$10.8 million in net charge-offs for the third quarter of 2002, \$5.8 million was related to commercial real estate loans and \$5.0 million to syndicated commercial loans. The increase in net charge-offs for commercial real estate loans during 2003 is primarily a reflection of the effect of a contracted economic environment.

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The following table shows detail for the Company's residential real estate loans held for sale as of the dates indicated (the Company does not retain any second mortgages in its held for investment portfolio):

| | SEPTEMBER 30, 2003 | DECEMBER 31 2002 |
|--|-----------------------|---------------------|
| ----- | | |
| (THOUSANDS OF DOLLARS, EXCEPT WHERE SHOWN OTHERWISE) | | |
| Residential real estate loans held for sale: | | |
| Loan principal outstanding: | | |
| First trust deeds | \$ 2,921,869 | \$ 1,591,900 |
| Second trust deeds | 161,367 | 85,736 |
| | ----- | ----- |
| | 3,083,236 | 1,677,636 |
| Deferred origination costs | 39,629 | 19,984 |
| Valuation reserve | (29,077) | (24,475) |
| | ----- | ----- |
| Residential real estate loans held for sale - net | \$ 3,093,788 | \$ 1,673,145 |
| | ===== | ===== |
| Non-performing assets - residential real estate loans held for sale ("HFS"): | | |
| Non-accrual | \$ 5,957 | \$ 6,709 |
| REO | 971 | 2,850 |
| | ----- | ----- |
| Total non-performing assets - HFS | \$ 6,928 | \$ 9,559 |
| | ===== | ===== |

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| | | |
|--|--------|-------|
| Non-performing assets - HFS to total HFS and HFS REO | 0.22% | 0.57 |
| Accruing loans HFS past due 90 days or more | \$ 113 | \$ - |
| | ===== | ===== |

The increase in residential real estate loans held for sale is a result of significantly increased loan origination volume. The following table details residential real estate loan origination and sales for the respective periods indicated (thousands of dollars):

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE M SEPT |
|----------------------------------|-------------------------------------|--------------|----------------|
| | 2003 | 2002 | 2003 |
| | ----- | ----- | ----- |
| Loan originations: | | | |
| First mortgage | \$ 3,727,382 | \$ 1,635,574 | \$ 8,736,548 |
| Second mortgage | 187,924 | 111,510 | 427,251 |
| | ----- | ----- | ----- |
| | \$ 3,915,306 | \$ 1,747,084 | \$ 9,163,799 |
| | ===== | ===== | ===== |
| Loan sales (net of repurchases): | | | |
| Whole loan | \$ 2,222,260 | \$ 1,648,827 | \$ 6,751,860 |
| Securitization | 561,577 | - | 561,577 |
| | ----- | ----- | ----- |
| | \$ 2,783,837 | \$ 1,648,827 | \$ 7,313,437 |
| | ===== | ===== | ===== |

LIQUIDITY AND CAPITAL RESOURCES

FIL finances its lending activities primarily through Federal Deposit Insurance Corporation ("FDIC") insured customer deposits, which totaled \$5.9 billion at September 30, 2003. FIL is also eligible for financing through the Federal Home Loan Bank of San Francisco ("FHLB"), which financing is available based upon advance rates on certain pledged collateral and at various rates and terms. At September 30, 2003, FIL had borrowing availability with the FHLB of \$1.94 billion, of which \$1.70 billion was borrowed and outstanding. In addition, FIL has a line of credit with the Federal Reserve Bank of San Francisco ("FRB") with a borrowing availability of \$380.2 million at September 30, 2003. There were no amounts outstanding under the line of credit with the FRB at September 30, 2003.

FIL entered into a \$500 million master loan and security agreement during July of 2003 with Greenwich Capital Financial Products, Inc. ("Greenwich"). This agreement, which expires in July 2004, provides secured financing solely for FIL's residential real estate loans held for sale or securitization and contains certain restrictive financial and other covenants, which require FIL to, among other things, maintain certain capital and liquidity levels. As of September 30,

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2003, FIL was in compliance with the financial and other covenants contained in the agreement and there were no amounts outstanding under this facility. During October of 2003, FIL entered into a \$500 million master repurchase agreement with Credit Suisse First Boston Mortgage Capital LLC ("CSFB"). This agreement, which also provides secured financing solely for FIL's residential real estate loans held for sale or securitization, expires in October 2004 and contains certain restrictive financial and other covenants that are similar to the Greenwich facility. These facilities are secured by these loans and the amounts borrowed are determined by utilizing various advance rates and bear interest based on a margin over the one-month LIBOR. An additional \$500 million facility providing similar financing is expected to be completed during the fourth quarter of 2003 to further expand FIL's borrowing capacity.

The FDIC has established certain capital and liquidity standards for its member institutions, and FIL was in compliance with these standards as of September 30, 2003. The Company believes it has sufficient liquidity and capital resources to fund its financial services operation for the foreseeable future.

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As a holding company, Fremont pays its operating expenses, interest expense and stockholders' dividends, and meets its other obligations primarily from its cash on hand and intercompany tax payments from FIL. Dividends of \$2.25 million and \$1.44 million were paid on Fremont's common stock in the quarters ending September 30, 2003 and 2002, respectively; however, the Company can give no assurance that future common stock dividends will be declared.

Fremont has available to it significant federal tax net operating loss carryforwards, which may be utilized to reduce or eliminate future tax payments. As a result, intercompany payments of federal tax obligations from FIL, which would otherwise be payable to taxing authorities, are available for use by Fremont for general working capital purposes, including the extinguishment of debt. The Company currently pays various state taxes, primarily California Franchise Taxes, as there are no significant state net operating loss carryforwards available to it for offset. The Company has certain California Franchise Tax issues pending resolution. The Company does not believe that the ultimate outcome of these matters, which are expected to take several years to resolve, will have a material effect on the Company's financial position or liquidity.

Fremont has cash and short term investments of \$104.5 million at September 30, 2003 and no debt maturities until March of 2004 and believes that, with its other available sources of liquidity, it will have sufficient means to satisfy its liquidity needs for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk resulting primarily from fluctuations in interest rates arising from balance sheet financial instruments such as investments, loans and debt. Changes in interest rates will affect the Company's net investment income, loan interest, net gain on the sale of residential real estate loans, interest expense and total stockholders' equity. The level of net gain on the sale of residential real estate loans is highly dependent upon the level of loan origination volume and the net premium paid by the purchasers of such loans. Both the volume and net premium, 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 net gain it realizes should significant interest rate increases occur or if other economic factors have a

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negative impact on the value and volume of the loans the Company originates. The objective of the Company's asset and liability management activities is to provide the highest 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.

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As part of its residential real estate mortgage banking operations, the Company enters into commitments to originate loans ("interest rate lock commitments"), which represent commitments that have been extended by the Company, generally for the period of 30 days, at a stated interest rate to its potential borrowers. The Company determined that certain of its interest rate lock commitments have met the definition of derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"; however, the impact of the change in fair value of such derivative instruments is not material to the Company's results of operations. Typically, the Company hedges the risk of overall changes in the fair value for its loans held for sale through entering into forward loan sale commitments.

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, 2002. 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, 2003.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2003, 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, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2003. 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.

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PART II - OTHER INFORMATION

ITEM 6: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K
(a) EXHIBITS.

| EXHIBIT NO. | DESCRIPTION |
|----------------|-------------|
| ----- | ----- |

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- 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 Amended and Restated By-Laws 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.)
- 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 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.)
- 4.3 Indenture 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.)
- 4.4 Amended and Restated Declaration of Trust among the Registrant, the Regular Trustees, The Chase Manhattan Bank (USA), a Delaware banking corporation, as Delaware trustee, and The Chase Manhattan Bank, N.A., a national banking 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.)
- 4.5 Preferred Securities Guarantee Agreement between the Registrant and The Chase Manhattan Bank, N.A., a national banking 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.)
- 4.6 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.)
- 4.7 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.)
- 10.1* Fourth Amendment to Employment Agreement between the Registrant and James A. McIntyre dated August 1, 2003.

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- 10.2* Management Continuity Agreement between the Registrant and Gwyneth E. Colburn dated August 7, 2003.
- 10.3* Management Continuity Agreement between the Registrant and Alan Faigin dated August 7, 2003.
- 10.4* Management Continuity Agreement between the Registrant and Marilyn I. Hauge dated August 7, 2003.

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| EXHIBIT NO. | DESCRIPTION |
|----------------|--|
| 10.5* | Management Continuity Agreement between the Registrant and Patrick E. Lamb dated August 7, 2003. |
| 10.6* | Management Continuity Agreement between the Registrant and Kyle R. Walker dated August 7, 2003. |
| 10.7* | Management Continuity Agreement between the Registrant and Murray L. Zoota dated August 7, 2003. |
| 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. |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management or compensatory plans or arrangements.

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

(b) REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED SEPTEMBER 30, 2003:

On July 31, 2003, the Company filed a Current Report on Form 8-K, Item 12, furnishing Regulation FD Disclosure to report its results of operations for the second quarter of 2003.

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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 13, 2003

/s/ LOUIS J. RAMPINO

Louis J. Rampino, President,
Chief Operating Officer and Director

Date: November 13, 2003

/s/ PATRICK E. LAMB

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

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