FREMONT GENERAL CORP
Form 10-K
March 16, 2006

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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, 2005
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 90404** (Address of principal executive offices)(Zip Code)	**(310) 315.5500** (Registrant s Telephone Number, including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, $1.00 par value
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)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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. þ Yes o No

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).:
þ Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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, 2005:

Common Stock, $1.00 Par Value $1,331,990,000

The number of shares outstanding of each of the issuer s classes of common stock as of February 28, 2006:

Common Stock, $1.00 Par Value 77,497,163 Shares

Documents Incorporated by Reference:

Portions of the proxy statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2005
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PART I

Item 1. *Business*

Overview

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 nationwide financial services business 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, 2005 were $11.48 billion and $1.36 billion, respectively. The Company reported income before taxes from continuing operations of $548.9 million and net income from continuing operations of $327.9 million for the year ended December 31, 2005.

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, 2005, the Company had approximately 3,200 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, 2005, officers and directors of the Company, their families and the Company s benefit plans beneficially owned approximately 29% 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 real estate loans held for investment was $4.76 billion at December 31, 2005. In addition, there were residential real estate loans held for sale of $5.42 billion at December 31, 2005.

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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 tables by loan type.

	As of December 31,		
	2005	2004	2003
	(Thousands of dollars)		
Loans held for Investment:			
Commercial real estate loans:			
Bridge	$ 1,887,073	$ 1,512,532	$ 1,659,847
Construction	2,448,428	1,020,370	804,793
Permanent	389,681	805,760	1,281,877
Single tenant credit	77,113	177,193	268,506
	4,802,295	3,515,855	4,015,023
Residential real estate loans			789,951
Other	8,589	4,526	11,472
	4,810,884	3,520,381	4,816,446
Net deferred loan fees and origination costs	(50,984)	(35,767)	(25,436)
Loans before allowance for loan losses	4,759,900	3,484,614	4,791,010
Allowance for loan losses	(156,837)	(171,525)	(213,591)
Loans held for investment net	$ 4,603,063	$ 3,313,089	$ 4,577,419

	As of December 31,		
	2005	2004	2003
	(Thousands of dollars)		
Loans held for Sale:			
Loan principal balance:			
1st trust deeds	$ 4,792,976	$ 5,036,724	$ 3,466,432
2nd trust deeds	611,104	383,039	160,855
	5,404,080	5,419,763	3,627,287
Basis adjustment for fair value hedge accounting		(1,327)	
Net deferred direct origination costs	51,782	74,514	50,067
	5,455,862	5,492,950	3,677,354
Valuation reserve	(32,753)	(38,258)	(23,807)
Loans held for sale net	$ 5,423,109	$ 5,454,692	$ 3,653,547

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

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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 second lien mortgage loans; these have fixed rates of interest and 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.

Origination volume increased approximately 52% to $36.24 billion in 2005 from $23.91 billion in 2004. Loans were originated in 46 states during 2005, with the largest volume being originated in California (27.7%), New York (11.3%) and Florida (10.8%). The growth in loan originations during 2005 was the result of further penetration into existing markets and the overall growth in the national sub-prime lending market. The following table profiles the loan origination volume for the periods indicated:

	Year Ended December 31,								
	2005			2004			2003		
	(Thousands of dollars, except percents and average loan size)								
Loan origination volume by lien position:									
Firsts	$	33,084,952	91.3%	$	22,507,624	94.1%	$	13,113,202	95.4%
Seconds		3,156,760	8.7%		1,403,747	5.9%		626,538	4.6%
	$	**36,241,712**	**100.0%**	**$**	**23,911,371**	**100.0%**	**$**	**13,739,740**	**100.0%**
For first lien volume only:									
Average loan size	$	246,349		$	213,746		$	197,971	
Weighted-average coupon		7.36%			6.99%			7.31%	
Average bureau credit score (FICO)		622			619			623	
Average loan-to-value (LTV)		80.6%			81.0%			81.6%	
Type of product:									
ARMs:									
30 Year:									
2/28		81.9%			80.1%			73.1%	
3/27		2.4%			3.9%			2.5%	
5/25		0.7%			0.7%			0.0%	
		85.0%			84.7%			75.6%	
40/30:									
2/28		6.7%			0.0%			0.0%	
3/27		0.1%			0.0%			0.0%	
5/25		0.1%			0.0%			0.0%	
		6.9%			0.0%			0.0%	
Total ARMs		**91.9%**			**84.7%**			**75.6%**	

Fixed rate:			
30 Year	7.9%	15.3%	24.4%
40/30	0.2%	0.0%	0.0%
Total fixed rate	**8.1%**	**15.3%**	**24.4%**
	100.0%	**100.0%**	**100.0%**
Loan purpose:			
Purchase	48%	43%	40%
Refinance	52%	57%	60%
	100%	**100%**	**100%**

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During the latter half of 2005, the Company implemented pricing strategies designed to reduce the production volume of interest-only loans, while at the same time a 40-year amortization (due in 30 years) first mortgage product was introduced. The interest-only loans generally provide for no principal amortization for up to the first five years and are available on the 2/28 and 3/27 (e.g., 2 years fixed rate, then 28 years adjustable rate) products. While interest-only loans were 23.7% of first lien loan production during 2005, they had decreased to 17.3% by the fourth quarter of 2005. The second lien products are all fixed rate loans. The following table gives further detail to the interest-only and second lien production for 2005 and 2004 (not meaningful for 2003):

	2005	2004
Interest-only loans:		
As a percentage of first lien volume	23.7%	16.6%
Average bureau credit score (FICO)	645	645
Weighted-average coupon	6.66%	6.14%
Average loan-to-value (LTV)	81.5%	83.1%
Second lien production:		
Average loan size	$ 52,876	$ 40,092
Average bureau credit score (FICO)	650	645
Weighted-average coupon	10.17%	10.59%
Purpose:		
Purchase	80.1%	81.4%
Refinance	19.9%	18.6%

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The current residential real estate loan disposition strategy is to primarily utilize both whole loan sales, and, to a lesser extent, securitizations. During 2005, $35.98 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 2005, the Company transacted whole loan sales with 21 different institutions, as compared to 24 and 21 in 2004 and 2003, 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,					
	2005		2004		2003	
	(Millions of dollars, except percents)					
Purchasing Entity:						
Fremont Home Loan Trusts [1]	$ 6,456	17.8%	$ 2,969	13.1%	$ 1,180	10.5%
Deutsche Bank	6,234	17.2%	2,720	12.0%	1,037	9.3%
Barclay s Bank	5,127	14.1%	964	4.3%		0.0%
RBS Greenwich Capital	2,793	7.7%	2,962	13.1%	2,004	17.9%
UBS	2,515	6.9%	527	2.3%		0.0%
Nomura Credit & Capital	1,997	5.5%		0.0%		0.0%
JP Morgan Chase	1,978	5.5%		0.0%		0.0%
CS First Boston	1,859	5.1%	1,848	8.1%	666	6.0%
Merrill Lynch	1,297	3.6%	591	2.6%	45	0.4%
Goldman Sachs	1,246	3.4%	932	4.1%	1,957	17.5%
Others	4,796	13.2%	9,162	40.4%	4,298	38.4%
	$ 36,298	100.0%	$ 22,675	100.0%	$ 11,187	100.0%
Less: Repurchases	(321)		(168)		(99)	
Total Whole Loan Sales & Securitizations	$ 35,977		$ 22,507		$ 11,088	

[1] Fremont Home Loan Trusts represent 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 2005 of 0.9% (0.7% and 0.9% in 2004 and 2003, 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. The Company adds to its balance sheet the net cash received from the transaction as well as the Company s retained residual interest in the securitization transaction. The Company performs the loan servicing functions on all 11 of the securitization transactions it has completed since 2003 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 2005, the Company entered into five securitizations totaling $6.46 billion in loan principal. The Company expects to continue to utilize a mix of whole loan sales and securitizations in the future at levels determined by its evaluation of market conditions and other factors. The Company generally 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.

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 residential loan production as held for investment.

The Company was servicing approximately $22.25 billion and $14.96 billion of loans as of December 31, 2005 and 2004, respectively. The Company intends to continue to service its loans held for sale, loans sold to other parties on an interim basis and those loans it securitizes. In addition, the Company has also begun to complete whole loan sales with servicing retained. The following is a breakdown of the loans being serviced by categorization as of December 31, 2005 and 2004:

	December 31,	
	2005	2004
	(Millions of dollars)	
Loans in securitizations	$ 7,381	$ 3,172
Loans held for sale	5,404	5,420
Loans sold and servicing retained	1,082	637
Loans sold and serviced on an interim basis	8,377	5,727
Other	8	
	$ 22,252	$ 14,956

Commercial Real Estate Lending

The commercial real estate lending operation s portfolio, as of December 31, 2005, consisted of 357 loans. Loans are primarily short-term bridge and construction facilities which generally have maturities for up to five years. These loans include facilities for various construction, conversion, acquisition, redevelopment and renovation purposes. These loans generally involve the construction of new structures or significant renovation or alteration to existing structures; this typically prohibits occupancy or the generation of rental revenue during the transition period. As a result, these loans are generally structured without principal amortization for a significant portion of the term of the loan. In recent periods, the Company has had an emphasis on providing financing for various condominium conversion and construction projects; this is reflected in approximately 48% of the commercial real estate portfolio outstanding at December 31, 2005 being comprised of loans for condominium related projects. These condominium projects often contain retail and hotel components. Approximately 51% of the commercial real estate loan balances outstanding are construction loans, 39% are bridge loans, 8% are permanent loans and 2% are single tenant credit loans. The majority of the commercial real estate loans

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originated are adjustable interest rate loans based upon six-month LIBOR and an applicable margin, and generally range in loan commitment size from $20 million to $100 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 substantially all 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 of the commercial real estate operation 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 have strong asset quality and proven sponsorship with defined project plans. The Company has an experienced in-house construction management team that it utilizes to evaluate loans prior to closing, during the construction/ renovation phase and if problems arise. Loan structures generally include hold backs for such items as funding of all construction and renovation costs, tenant improvements, leasing commissions and interest carry. 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 $138.2 million and $131.6 million as of December 31, 2005 and 2004, respectively. Commercial real estate new loan commitment volume, net of participations, increased to $5.90 billion in 2005 from $2.66 billion in 2004, as per the table below:

	Total New Commercial Real Estate Loan Commitments	
	2005	**2004**
	(Thousands of dollars)	
Senior loans	$ 5,899,261	$ 2,638,307
Mezzanine loans		17,051
	$ 5,899,261	$ 2,655,358
Average senior loan commitment size originated	$ 37,816	$ 26,122

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The following table details the commercial real estate loan portfolio as of December 31, 2005 by property collateral type and as to outstanding balances and total commitment amounts:

Property Type	Total Loans Outstanding	%	Total Loan Commitments	%	Average Loan Balance	Average Commitment	Average Loan to Commitment %
	(Thousands of dollars, except percents)						
Multi-Family Condominiums	$ 2,295,618	48%	$ 4,603,411	56%	$ 20,137	$ 40,381	50%
Land Development	706,277	15%	934,344	11%	19,089	25,253	76%
Office	666,979	14%	972,499	12%	17,102	24,936	69%
Retail	318,973	7%	563,499	7%	11,814	20,870	57%
Commercial Mixed-Use	257,995	5%	489,394	6%	15,176	28,788	53%
Industrial	190,943	4%	207,997	3%	9,093	9,905	92%
Multi-Family Other	152,039	3%	214,077	3%	2,027	2,854	71%
Special Purpose	111,699	2%	112,935	1%	6,981	7,058	99%
Hotels & Lodging	101,772	2%	103,026	1%	9,252	9,366	99%
	$ 4,802,295	100%	$ 8,201,182	100%	$ 13,452	$ 22,972	59%

The commercial real estate loan portfolio outstanding is secured by first mortgages on properties located in California (25.5%), New York (14.7%), Florida (11.5%), Arizona (6.7%), Virginia (6.6%) and Hawaii (4.4%). The Company originated loans in 21 states during 2005 and held loans with the underlying property located in 31 states as of December 31, 2005. The real estate securing these loans includes a wide variety of property and project 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,	
	2005	2004
Multi-Family Condominiums	48%	25%
Land Development	15%	12%
Office	14%	18%
Retail	7%	7%
Commercial Mixed-Use	5%	12%
Industrial	4%	11%
Multi-Family Other	3%	5%
Special Purpose	2%	5%
Hotels & Lodging	2%	5%
	100%	100%

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The commercial real estate loan portfolio as of December 31, 2005, is stratified by loan size as follows (thousands of dollars, except percents and number of loans):

Loan Size	Total Loans Outstanding	%	# of Loans	Average Loan Size
$0 - $1 million	$ 6,041	0%	70	$ 86
>$1 million - $5 million	190,878	4%	57	3,349
>$5 million - $10 million	588,223	12%	80	7,353
>$10 million - $15 million	492,813	10%	40	12,320
>$15 million - $20 million	557,195	12%	33	16,885
>$20 million - $30 million	897,968	19%	37	24,269
>$30 million - $40 million	576,466	12%	16	36,029
>$40 million - $50 million	407,516	8%	9	45,280
>$50 million	1,085,195	23%	15	72,346
	$ 4,802,295	100%	357	$ 13,452

The commercial real estate loan portfolio includes 15 separate loans with outstanding balances in excess of $50 million as of December 31, 2005, the largest loan having an outstanding balance of $90.0 million. The largest commitment to a specific borrower as of December 31, 2005 was $131.3 million, of which $86.8 million was outstanding as of December 31, 2005. As of December 31, 2005, there were four groups of loans (separate loans on different properties) with common investors or equity sponsors for which the aggregate outstanding principal balance of the separate loans exceeded $100 million. The largest concentration is from one affiliated investment fund and totals $128.5 million, comprised of seven separate loans. All seven of the loans under this concentration were performing as of December 31, 2005.

As of December 31, 2005, the average loan size was $13.5 million (or $16.7 million when loans under $1 million are excluded) and the average loan-to-value ratio was approximately 73%, using the most current available appraised values and current loan balances outstanding. At December 31, 2005, five commercial real estate loans were classified as non-accrual, totaling $29.3 million, and there were seven commercial real estate properties owned, totaling $30.2 million, which were acquired through or in lieu of foreclosure on loans. At December 31, 2005, there were no commercial real estate loans that were 90 days or greater past due and on accrual status. The total outstanding balance of loans restructured during 2005 and on accrual status as of December 31, 2005 was $12.3 million.

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Funding Sources

The commercial and residential real estate lending activities are financed primarily through deposit accounts offered by FIL and which are insured by the FDIC (See Regulation and Supervision). FIL offers certificates of deposit and savings and money market deposit accounts (insured by the FDIC to the legal maximum) through its 21 branches in California. FIL minimizes the costs associated with its accounts by not offering traditional checking, safe deposit boxes, ATM access and other traditional retail services. Deposits totaled $8.60 billion at December 31, 2005 and are summarized as to type as follows (thousands of dollars):

	Number of Accounts	Total Deposits
Savings and money market deposit accounts	34,149	$ 1,550,267
Certificates of deposit:		
Retail	121,805	5,823,890
Brokered	N/M	1,227,836
	155,954	$ 8,601,993

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 from the FHLB, based upon its level of regulatory assets, was approximately $3.78 billion as of December 31, 2005. At December 31, 2005, 2004 and 2003 FIL s actual borrowing capacity, based upon the amount of collateral pledged and the applicable advance rates, was $1.99 billion, $2.11 billion and $2.66 billion, respectively, with $949.0 million, $900.0 million and $1.65 billion, respectively, in outstanding advances. The weighted-average interest rates on the FHLB advances outstanding at December 31, 2005, 2004 and 2003 were 3.78%, 1.97% and 1.93%, respectively. The borrowing capacity of FIL from the FHLB varies from time to time and is dependent upon the amount and timing of loans pledged. FIL pledged loans with a carrying value of $2.22 billion, $2.37 billion and $2.14 billion at December 31, 2005, 2004 and 2003, respectively, to secure current and any future borrowings. The maximum amount outstanding on the FHLB credit line at any month-end during 2005, 2004 and 2003 was $2.59 billion, $2.81 billion and $1.79 billion, respectively. FIL also has a line of credit with the Federal Reserve Bank of San Francisco, and at December 31, 2005 had a borrowing capacity, based upon collateral pledged, of $442.3 million, with no amounts outstanding.

To expand the capacity and flexibility of funding its residential real estate loan origination volume, the Company has four warehouse lines of credit with well-established financial institutions. 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. As of December 31, 2005, these four facilities totaled $3.0 billion in total borrowing capacity of which $2.25 billion 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, 2005.

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 lenders and finance companies, many of which are larger and have

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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 the Company (the Agreement) was entered into which provided for mandatory and contingent cash contributions by the Company, 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 in the fourth quarter of 2002. As a result of the restrictions contained in the Agreement with the DOI, the additional adverse loss development, and actions taken by the DOI in the fourth quarter of 2002 to further restrict Fremont Indemnity s ability to direct the run-off of the discontinued business and manage the other activities of the insurance operations, the Company concluded that it no longer had effective control of these operations. 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 22 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 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, 2005, 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.

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, 2005 FIL s Tier-1 capital and total risk-based capital ratios were 14.2% and 15.5%, 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 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, 2005, FIL s leverage ratio was 12.6%.

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, 2005, FIL s regulatory capital exceeded all minimum requirements to which it is subject and the most recent notification from the FDIC categorized FIL as well-capitalized. To be categorized as well-capitalized, the institution must maintain 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, 2005, FIL s Tier-1 Leverage Ratio was 12.6%. 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 stockholders 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.

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 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 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.

Available Information: Website Access to Periodic Reports

The following information can be found on Fremont General s website at *www.fremontgeneral.com* or can be obtained free of charge by contacting our Investor Relations Department at 310/315-5500 or by sending an e-mail message to *invrel@fmt.com*:

- our 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 as soon as reasonably practicable after the reports have been filed with the Securities and Exchange Commission (SEC). On or about April 7, 2006 our 2006 Proxy Statement will be available on our website. Copies of Fremont General s Form 10-K, Form 10-Q and other reports filed with the SEC can be obtained 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;

- information relating to transaction in Fremont General s securities by directors and officers; and

- information relating to stockholder services, including book-entry share ownership and direct deposit of dividends.

We will provide any of this 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*.

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Item 1A. ***Risk Factors***

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 our current expectations and beliefs concerning future developments and their potential effects upon us. These statements and our 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 us. Actual developments and/or results may differ significantly and adversely from our expected or currently reported results as a result of significant risks, uncertainties and factors, often beyond our control (as well as the various assumptions utilized in determining our 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 in the non-prime residential lending market and in the commercial real estate lending market on our ability to adequately price, underwrite and originate our loans;

the impact of competition and pricing environments on loan and deposit products and the resulting effect upon our net interest margin and net gain on sale;

changes in our ability to originate loans, and any changes in the cost and volume of loans originated as a result thereof;

the effectiveness of our interest risk management, including hedging, on our 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;

our ability to sell or securitize the residential real estate loans we originate, the pricing and valuation of existing and future loans, and the net premiums realized upon the sale of such loans;

our ability to sell certain of the commercial real estate loans and foreclosed real estate in our 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 our assets and loans, including the value of the underlying real estate collateral;

the ability to effectively manage our growth in assets and volume, including our 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 ability to appropriately estimate an adequate level for the allowance for loan losses, the valuation reserve for loans held for sale, the loan repurchase reserve and the premium recapture reserve, as well as the fair value of the retained mortgage servicing rights and residual interests in securitizations;

changes in various economic and other factors which influence the timing and ultimate realization of the cash flows supporting our estimate of fair value for our residual interests in securitized loans and mortgage servicing rights;

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;

our ability to maintain cash flow sufficient for us to meet our 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 us;

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; and

other events, risks and uncertainties discussed elsewhere in this Form 10-K and from time to time in our other reports, press releases and filings with the Securities and Exchange Commission.

We undertake no obligation to publicly update such forward-looking statements.

Operating Results and Financial Condition May Vary

Our profitability can be affected significantly by many factors including competition, the valuation of our loans, residential interests, mortgage servicing rights and other assets, access to capital, funding sources, and the 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 our 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 us in our loan origination volume. We have expended significant effort to upgrade our infrastructure to meet the requirements of this growth and expected future growth; however, we could be adversely affected if we 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 our results of operations from quarter to quarter and from year to year.

During periods when economic conditions are unfavorable, we may not be able to originate new loan products or maintain the credit quality of our loans, both in the loans we hold for investment and those we hold 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, lower premiums for our loans and impairment in the valuation of our residual interests. 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 our loans. These risk factors could adversely affect the value of the loans (both held for investment and held for sale) and their related collateral, as well as the value of our residual interests and

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mortgage servicing rights, all of which could adversely affect the results of operations and our financial condition. Additionally, material deterioration in the performance of the residential real estate loans that have been sold by us in either whole loan sales or securitizations could adversely impact the pricing and structure of such future transactions. Our ability to sell or securitize our loans is dependent upon the conditions and liquidity of the secondary markets, and the investor relationships that we have developed; our attempt to limit such risk through the continued development of existing and new relationships and maintaining appropriate liquidity levels.

The residential mortgage industry, in particular, is a cyclical business that generally performs better in a low interest rate environment. The environment of historically low interest rates over the past two years has been very favorable for our 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 demographics of our lending markets, could influence the level of demand for residential real estate loans. The residential real estate market has benefited from strong housing price appreciation in recent years; this has supported residential real estate loan performance with loan losses being realized at record low levels during this time through reduced delinquencies, foreclosures and loss severities. If housing price appreciation decelerates significantly or declines, credit losses would be expected to increase. Higher credit losses may negatively impact the premiums for the loans the Company originates and impair the value of its residual interests. Gain on the sale of loans is a large component of our 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.

We have experienced strong net interest income margins on our loans held for investment and held for sale in the past two years, primarily as a result of a relatively low interest rate environment. The transition to an increasing interest rate and flatter yield curve 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 that we offer. 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 our ability to be effective in our interest rate risk management, especially during periods of significant growth in our loan origination volume, can produce volatility in net interest income during periods of interest rate movements and may result in lower net interest margins.

Our 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. We enter into various derivative financial contracts using hedging strategies in an effort to mitigate the impact of interest rate changes on an economic and, periodically, on an accounting basis also. The overall effectiveness of these hedging strategies are subject to market conditions and our ability to accurately assess and estimate the characteristics of our hedged loans. Hedging is susceptible to prepayment risk, market volatility and the quality of assumptions utilized; there can be no assurance as to how successful our hedging activities will be under various interest rate scenarios.

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Allowance for Loan Losses May Prove to Be Inadequate

We maintain an allowance for loan losses on our portfolio of loans held for investment in amounts that we believe are sufficient to provide adequate protection against potential losses. To mitigate the somewhat higher credit risk of the lending that we primarily engage in and for the impact that adverse economic developments could have on our loans, we lend primarily on a senior and secured basis. We also attempt 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 we believe that our 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 our ability to realize, in the event of default by a borrower, the expected value of the collateral securing certain of our loans or the timing of the realization thereof. We have increased the level of construction and condominium related lending in our portfolio, for which we have limited historical loss patterns to utilize in our risk evaluation, and may be subject to actual loss experience at higher levels than anticipated. We also originate a substantial number of larger loans, any one of which 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 us.

Competition May Adversely Affect Our Market Share and Operating Results

We compete in markets that are highly competitive and are characterized by factors that vary based upon loan product and geographic region. The markets in which we compete 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 competitive forces could affect our ability to source adequately priced deposits. We primarily compete with banks and mortgage lenders and finance companies, many of which are larger and have greater financial resources than us, 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 our 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 Our Operations

While we attempt to diversify our loan origination by geographic region, the geographic concentration of commercial and residential real estate loans remains in California. At December 31, 2005, approximately 26% of the commercial real estate loans in the portfolio, and 25% 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 our operating results and financial condition than if a higher percentage of loans were collateralized by properties located outside of California. We also have concentrations in our commercial real estate loan portfolio as to collateral types, in particular, multi-family properties involving the conversion and construction of condominiums. A deceleration or decline in the condominium market may adversely impact us. While we believe that our underwriting guidelines are appropriate and maintain enhanced risk management processes for our significant market and property type concentrations, the occurrence of adverse events or economic deterioration impacting the markets or property type categories in which we have concentrations, may have a more significant adverse effect upon our financial condition than if the loan portfolio was more diverse.

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Regulatory Developments May Adversely Affect Our Operations

Our industrial bank, Fremont Investment & Loan (FIL), is subject to supervision and regulation by the Federal Deposit Insurance Corporation and the Department of Financial Institutions of the State of California. 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, 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 our lending business, increase minimum capital requirements, restrict the ability to make dividends, 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 (for 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 our future business prospects.

Liquidity Risk

Our principal financing needs 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 Federal Home Loan Bank (FHLB) and capital. We also maintain warehouse lines of credit to supplement our primary funding sources. Our 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 our ongoing operations. Market conditions, regulatory status and our financial condition, in particular of FIL s financial condition, 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 us.

Item 1B. ***Unresolved Staff Comments***

None.

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***

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

Fremont Indemnity Company (in Liquidation) v. Fremont General Corporation et al.:

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

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

On May 2, 2005 the Commissioner filed a Second Amended Complaint (SAC) with regard to the 7th cause of action on behalf of Fremont Indemnity against the Company alleging intentional misrepresentation, concealment and promissory fraud, which induced the Commissioner to first enter into the Letter Agreement. On July 15, 2005, the Court dismissed the SAC with 20 days leave to amend. On August 4, 2005, the Commissioner filed a Third Amended Complaint (TAC) again alleging intentional misrepresentation, concealment and promissory fraud.

On November 22, 2005, the Court dismissed the remaining cause of action in the TAC, finding that the Plaintiff still failed to plead any affirmative misrepresentation which is actionable. The Court also found that the pleading is inadequate as to damage allegations. This ruling by the Court dismisses the only remaining cause of action in the lawsuit originally brought by the Commissioner on behalf of Fremont Indemnity Company against Fremont General Corporation, first reported on June 17, 2004. The Commissioner has filed a Notice of Appeal to the Court s dismissal of the complaint. The Company continues to believe that this lawsuit is without merit.

Fremont Indemnity Company (in Liquidation as Successor in Interest to Comstock Insurance Company) v. Fremont General Corporation et al.:

The Commissioner filed an additional and separate complaint against the Company on behalf of Fremont Indemnity as successor in interest to Comstock Insurance Company (Comstock), a former affiliate of Fremont Indemnity, which was subsequently merged into Fremont Indemnity. This case alleged similar causes of action regarding the usage of the NOLs as in the Fremont Indemnity case as well as improper transactions with other insurance subsidiaries and affiliates of Fremont Indemnity. This matter was deemed a related case to the Fremont Indemnity case. On April 22, 2005, the Court dismissed, without leave to amend, the entire complaint.

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This ruling does not address or necessarily have legal effect on the related Fremont Indemnity case. The Commissioner has filed an Appeal to the Court s dismissal of the complaint. The Company continues to believe that this lawsuit is without merit.

Gerling Global Reinsurance Corporation of America v. Fremont General Corporation et al.:

On July 27, 2005, Gerling Global Reinsurance Corporation of America (Gerling) filed a lawsuit in Federal District Court (the Court) against Fremont General arising out of a reinsurance treaty between Gerling and Fremont Indemnity alleging 1) Fraud/ Intentional Misrepresentation and Concealment; 2) Breach of Fiduciary Duty; 3) Willful and Wanton Misconduct; 4) Negligent Misrepresentation; 5) Gross Negligence; 6)Tortuous Interference with Contract; 7) Unjust Enrichment; and 8) Breach of Contract for allegedly improper underwriting practices by Fremont Indemnity during 1998 and 1999. In October 2005, Gerling filed a First Amended Complaint (FAC) alleging 1) Fraud/ Intentional Misrepresentation and Concealment; 2) Inducement to Breach and Breach of Fiduciary Duty and Duty of Utmost Good Faith; 3) Willful and Wanton Misconduct; 4) Negligent Misrepresentation; 5) Gross Negligence; 6)Tortuous Interference with Contract; 7) Unjust Enrichment; and 8) Inducement to Breach and Breach of Contract.

On December 12, 2005, the Company s Motion to Dismiss the FAC was argued and heard before the Court. On December 15, the Court issued its Order dismissing with prejudice Gerling s Third through Sixth Causes of Action, which asserted claims for Willful and Wanton Misconduct, Negligent Misrepresentation, Gross Negligence and Tortuous Interference with Contract, and also dismissed with prejudice that part of Gerling s Eighth Cause of Action that alleged Inducement to Breach of Contract. The Court also dismissed the Breach of Contract claim, but granted Gerling leave to replead that claim.

In January 2006, Gerling filed a Second Amended Complaint (SAC) alleging 1) Fraud/ Intentional Misrepresentation and Concealment; 2) Breach of Fiduciary Duty and Duty of Utmost Good Faith; 3) Unjust Enrichment; and 4) Breach of Contract. On March 6, 2006, the Company s Motion to Dismiss this SAC were argued and heard before the Court. On its own motion, the Court converted the Motion to Dismiss to a Motion for Summary Judgment and ordered that it be reset for hearing following limited discovery on the statute of limitations issues raised in the Motion. The Company continues to believe that this lawsuit is without 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
2005			
1st Quarter	$ 26.99	$ 21.61	$ 0.07
2nd Quarter	24.52	19.45	0.08
3rd Quarter	26.15	20.05	0.08
4th Quarter	24.87	18.86	0.10
Total			$ 0.33
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

On December 31, 2005, the closing sale price of Fremont General s common stock on the NYSE was $23.23 per share. There were 1,491 stockholders of record as of December 31, 2005.

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, 2005.

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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	1,184,927	(1)	$ 14.9375	(2)	3,214,414	(3)
Equity compensation plans not approved by security holders	410,487	(4)				(4)
Total	1,595,414				3,214,414	

(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 Supplemental Executive Retirement Plan (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 the Company s reacquisition option until restrictions on the shares lapse or the participant s employment or directorship terminates.

(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.

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Issuer Purchases of Equity Securities
The following table sets forth the issuer purchases of equity securities for the fourth quarter of 2005.

Period	**Total Number of Shares (or Units) Purchased [1]**		**Average Price Paid per Share (or Unit) [1]**	**Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [2]**
October 1 - 31,	746	$	20.28	746	
November 1 - 30,	350	$	24.31	350	
December 1 - 31,	82	$	23.83	82	
Total	1,178	$	22.22	1,178	4,285,006

(1) Shares of common stock acquired by the Company from participants through purchases of shares under certain employee benefit plans at fair value.

(2) A repurchase program for four million shares was announced to the public on February 27, 2003, and a repurchase program for four million shares was announced to the public on May 19, 2005.

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

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Thousands of dollars, except per share data)				
Statements of Operations Data:					
Interest and fee income on loans	$ 803,280	$ 657,664	$ 539,588	$ 433,366	$ 408,641
Interest income other	37,878	13,660	6,285	4,406	14,272
	841,158	671,324	545,873	437,772	422,913
Interest expense	(340,703)	(202,565)	(182,163)	(191,839)	(254,703)
Net interest income	500,455	468,759	363,710	245,933	168,210
Provision for loan losses	3,974	6,842	(98,262)	(108,118)	(53,374)
Non-interest income	412,087	483,230	352,264	204,774	101,797
Non-interest expense	(367,573)	(357,161)	(253,591)	(165,699)	(123,707)
Income before income taxes	548,943	601,670	364,121	176,890	92,926
Income tax expense	(220,995)	(247,914)	(152,168)	(72,813)	(34,672)
Net income from continuing operations	327,948	353,756	211,953	104,077	58,254
Discontinued insurance operations			44,308	(77,762)	2,280
Net income	$ 327,948	$ 353,756	$ 256,261	$ 26,315	$ 60,534
Per Share Data:					
Cash dividends declared	$ 0.33	$ 0.24	$ 0.17	$ 0.08	$ 0.10
Stockholders equity	17.51	13.12	8.75	5.29	5.05
Basic:					
Income from continuing operations	$ 4.51	$ 4.98	$ 3.03	$ 1.55	$ 0.90
Discontinued insurance operations			0.63	(1.16)	0.03
Net income	$ 4.51	$ 4.98	$ 3.66	$ 0.39	$ 0.93
Diluted:					
Income from continuing operations	$ 4.37	$ 4.80	$ 2.98	$ 1.55	$ 0.89
Discontinued insurance operations			0.62	(1.16)	0.03
Net income	$ 4.37	$ 4.80	$ 3.60	$ 0.39	$ 0.92

Weighted-Average Shares Used to Calculate Per Share Data (in thousands):					
Basic	72,660	71,050	69,993	67,009	64,955
Diluted	75,063	73,652	71,237	67,214	65,289

					December 31,
	2005	2004	2003	2002	2001
			(Thousands of dollars)		
Balance Sheet Data:					
Total assets	$ 11,484,113	$ 10,105,996	$ 9,525,287	$ 6,675,306	$ 8,014,284
Loans held for investment	4,603,063	3,313,089	4,577,419	3,976,695	3,757,222
Deposits	8,601,993	7,546,980	6,633,166	4,545,723	4,256,422
FHLB advances	949,000	900,000	1,650,000	1,175,000	309,000
Senior Notes due 2004			22,377	71,560	150,051
Senior Notes due 2009	175,305	180,133	188,987	188,658	188,330
LYONs		611	654	3,089	4,187
Junior Subordinated Debentures/ Preferred Securities	103,093	103,093	100,000	100,000	100,000
Stockholders equity	1,356,806	1,013,648	664,732	399,017	357,773

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

Overview

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

FIL has two primary real estate lending operations, commercial and residential, both operating on a nationwide basis. FIL s commercial real estate lending operation includes nine regional offices and, as of December 31, 2005, had loans outstanding in 31 states. The residential real estate lending platform originated loans from 46 states through its five regional loan production centers during 2005. 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 commercial 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, conversion repositioning and lease-up of existing or new properties. To manage the credit risk involved in this lending, FIL is focused on the value and quality of the collateral and the quality and experience of the parties with whom it does business. The size of loan commitments originated generally range from $20 million to $100 million, with some loans for larger amounts.

The Company s two operating lines of business were designed to be somewhat counter-cyclical and to provide balance in varying economic cycles; however, this balance may not be achieved as both of the Company s operating businesses are influenced by the overall condition of the economy, in particular the interest rate environment and, as a result, experience cyclicality in volume, gain on the sale of loans, net interest income, 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 and adjusted through provisions (which are either an expense or a credit to income) that are recognized in the consolidated statements of income. Net interest income is recognized on these loans during the period that the Company holds them for sale. The Company also recognizes interest income on the residual interests it retains from its securitization transactions. Servicing income is realized on the loans sold into the Company s securitizations and on whole loan sales when servicing is retained, as well as on an interim basis for loans sold on a servicing released basis to other financial institutions. When servicing is retained either through a securitization or a whole loan sale with servicing retained, a mortgage servicing rights (MSR) asset is typically established; the MSR is amortized to expense over the expected life of the related servicing income.

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

The principal market risks the Company faces are interest rate risk and liquidity risk. Interest rate risk is the risk that the valuation of the Company s interest sensitive assets and liabilities and its net interest income will change due to changes in interest rates. 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 the 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 prepayment patterns, which in turn affects the valuation of the Company s residual interests and MSRs, 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.

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Results of Operations

The Company reported net income of $327.9 million for 2005 as compared to $353.8 million and $256.3 million for 2004 and 2003, 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, 2005, 2004 and 2003, respectively:

	Year Ended December 31,		
	2005	2004	2003
	(Thousands of dollars, except percents)		
Interest and fee income on loans	$ 803,280	$ 657,664	$ 539,588
Interest income other	37,878	13,660	6,285
Total interest income	841,158	671,324	545,873
Interest expense	(340,703)	(202,565)	(182,163)
Net interest income	500,455	468,759	363,710
Provision for loan losses	3,974	6,842	(98,262)
Net interest income after provision for loan losses	504,429	475,601	265,448
Net gain (loss) on:			
Whole loan sales and securitizations of residential real estate loans	345,530	437,351	307,644
Sale of residual interests in securitized loans			17,503
Extinguishment of debt	(55)	(105)	(1)
Loan servicing income	69,680	36,467	10,734
Mortgage servicing rights amortization and impairment	(19,299)	(12,244)	(1,050)
Impairment on residual assets	(2,299)	(985)	
Other non-interest income	18,530	22,746	17,434
Operating expenses	(367,573)	(357,161)	(253,591)
Income before income taxes from continuing operations	548,943	601,670	364,121
Income tax expense	(220,995)	(247,914)	(152,168)
Net income from continuing operations	327,948	353,756	211,953
Discontinued insurance operations in regulatory liquidation, net of tax			44,308
Net income	$ 327,948	$ 353,756	$ 256,261
Return on average assets	3.0%	3.6%	2.7%
Return on average equity	27.5%	42.0%	40.1%
Dividend payout ratio	7.6%	5.0%	5.7%
Equity to assets ratio	10.9%	8.5%	6.8%

Returns are calculated using net income from continuing operations.

The dividend payout ratio is based on fully diluted net income per share from continuing operations.

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2005 as compared to 2004

The Company recorded net income from continuing operations of $327.9 million for 2005 as compared to $353.8 million for 2004. This represents a decrease of 7% for 2005 as compared to 2004. This decrease is primarily a result of decreased levels of net gain on the sale and securitization of residential real estate loans, partially offset by increased levels of net interest income.

Net Interest Income

The net interest income for 2005 was $500.5 million as compared to $468.8 million for 2004. The increase in net interest income is primarily a result of an increase in the volume of average interest-earning assets as indicated in the tables below. Average interest-earning assets increased 17% to $11.29 billion during 2005, as compared to $9.61 billion during 2004. The increase in volume is primarily a result of a significantly higher level of residential real estate loans held for sale; this is due to significantly higher origination levels of these loans. The net interest income margin (as a percentage of average interest-earning assets) decreased to 4.43% for 2005 from 4.87% for 2004. This decrease in the net interest margin for 2005 is due primarily to higher funding costs relative to the yields realized on the loans outstanding; in particular, yields on the Company s residential real estate loans increased at a slower rate than did the underlying cost of funds during 2005. The following tables identify the consolidated interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins, as well as an analysis of changes in net interest income due to volume and rate changes, for the Company during 2005 and 2004:

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	Year Ended December 31,					
	2005			2004		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Thousands of dollars, except percents)					
Interest-earning assets [1]:						
Commercial real estate loans	$ 3,977,767	$ 318,507	8.01%	$ 3,872,207	$ 290,973	7.51%
Residential real estate loans [2]	6,552,890	484,773	7.40	5,213,984	366,613	7.03
Syndicated commercial loans				4,076	78	1.91
Residual interests in securitized loans	26,117	13,150	50.35	15,413	3,910	25.37
Cash equivalents and investment securities	735,140	24,728	3.36	508,028	9,750	1.92
Total interest-earning assets	$ 11,291,914	$ 841,158	7.45%	$ 9,613,708	$ 671,324	6.98%
Interest-bearing liabilities:						
Time deposits	$ 6,473,997	$ 217,262	3.36%	$ 5,333,218	$ 115,951	2.17%
Savings deposits	1,643,877	45,349	2.76	1,770,793	35,534	2.01
FHLB advances	1,598,311	47,795	2.99	1,306,847	25,092	1.92
Warehouse lines of credit	118,829	5,979	5.03		950	0.00
Senior Notes due 2004				4,709	372	7.90
Senior Notes due 2009	181,124	14,582	8.05	185,983	14,975	8.05
LYONs	240	14	5.83	639	33	5.16
Junior Subordinated Debentures	103,093	9,278	9.00	103,093	9,278	9.00
Other	28,084	444	1.58	12,487	380	3.04
Total interest-bearing liabilities	$ 10,147,555	$ 340,703	3.36%	$ 8,717,769	$ 202,565	2.32%
Net interest income		$ 500,455			$ 468,759	
Percent of average interest-earning assets:						
Interest income		7.45%			6.98%	
Interest expense		3.02%			2.11%	
Net interest margin		4.43%			4.87%	

(1) Average loan balances include non-accrual loan balances.
(2) Includes loans held for sale and other.

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	December 31, 2005 Compared to 2004		
	Change Due To		
	Volume[1]	Rate	Total
	(Thousands of dollars)		
Cash equivalent and investment securities	$ 7,522	$ 7,456	$ 14,978
Loans and residual interests	112,802	42,054	154,856
Total increase in interest income	120,324	49,510	169,834
Time deposits	(38,284)	(63,027)	(101,311)
Savings deposits	3,501	(13,316)	(9,815)
FHLB advances	(8,716)	(13,987)	(22,703)
Warehouse lines of credit	(5,029)		(5,029)
Senior Notes due 2004 and 2009	765		765
LYONs	19		19
Junior Subordinated Debentures			
Other	(247)	183	(64)
Total (increase) in interest expense	(47,991)	(90,147)	(138,138)
Increase/ (decrease) in net interest income	$ 72,333	$ (40,637)	$ 31,696

[1] Changes in rate/volume are allocated to change in volume.

Non-Interest Income

The gain on the sales and securitizations of residential real estate loans decreased from $437.4 million in 2004 to $345.5 million for 2005. This decrease is primarily attributable to a significant decrease in the gross premium received on loan sales and securitizations in the two comparable years, partially offset by a significantly higher volume of loans sold and securitized during 2005, as compared to 2004. A total of $35.98 billion in loans were sold (including loans sold via securitization and net of loans repurchased) during 2005, as compared to loan sales of $22.51 billion during 2004. The average gross premium on loans sold and securitized during 2004 was 3.53% as compared to an average of 2.22% for 2005. The decrease in gross premiums during 2005 is primarily attributable to lower interest rate margins, reflecting increased price competition in the non-prime mortgage origination market.

The Company realized a net gain of $26.2 million on its derivative instruments utilized to hedge the impact of interest rate volatility on its residential real estate lending activities during 2005. This net gain primarily resulted from an increase in the underlying interest rate indices (primarily the two-year swap rate) which conversely had a negative impact upon the gross loan sale and securitization premiums realized during the same period. Such premiums and the gain or loss on derivative instruments have exhibited, and are expected to continue to exhibit, variability (often significant) based on various economic and interest rate environments, as well as on the Company s loan sale and hedging activity levels and their timing. The Company s direct costs of loan origination associated with loans sold decreased during 2005 to 1.23% from 1.39% in 2004 as a result of lower costs incurred for with broker and account executive compensation. The Company reported provisions for valuation and repurchase reserves for 2005 of $10.0 million or 0.03% of total net loan sales and securitizations, respectively, as compared to $15.7 million or 0.07% for 2004. During 2005, the Company updated its loss estimates and stratifications for both of its valuation and repurchase reserves. The estimates were based on an updated analysis of historical loan collateral vintage data. The

Company continually evaluates the loss estimates utilized for its valuation and repurchase reserves based upon its analysis of historical and current data and the mix of loan characteristics. The net gain percentage (the net gain after direct costs, net gains or losses on

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derivative instruments, provisions for premium recapture and valuation and repurchase reserves, divided by net loans sold) on these sales decreased to 0.95% in 2005 from 1.94% in 2004.

	Year Ended December 31,	
	2005	2004
	(Thousands of dollars, except percents)	
Whole loan sales of residential real estate loans	$ 29,521,283	$ 19,538,713
Securitizations of residential real estate loans	6,455,590	2,968,764
Total loan sales and securitizations net of repurchases	$ 35,976,873	$ 22,507,477
Gross premium recognized on loan sales and securitizations	$ 800,426	$ 793,801
Net gain on derivative instruments	26,233	1,076
	826,659	794,877
Direct costs of loan originations net	(442,979)	(313,733)
Provision for premium reversal	(28,138)	(28,140)
	355,542	453,004
Provision for valuation and repurchase reserves	(10,012)	(15,653)
Net gain on sale	$ 345,530	$ 437,351
Net gain on sale	$ 345,530	$ 437,351
Origination expenses allocated during the period of origination	(136,450)	(181,008)
Net operating gain on sale	$ 209,080	$ 256,343
Gross premium recognized on loan sales and securitizations	2.22%	3.53%
Net gain on derivative instruments	0.07%	0.00%
	2.29%	3.53%
Direct costs of loan originations	(1.23)%	(1.39)%
Provision for premium reversal	(0.08)%	(0.13)%
	0.98%	2.01%
Provision for valuation and repurchase reserves	(0.03)%	(0.07)%
Net gain on sale	0.95%	1.94%
Net gain on sale	0.95%	1.94%
Origination expenses allocated during the period of origination	(0.38)%	(0.80)%

Net operating gain on sale	0.57%	1.14%

Percentages are of total loan sales and securitizations, net of repurchases, during the period indicated.

Premium reversal is the reversal of premium on loans sold which prepay early per the terms of each sales contract; includes some interest adjustment.

Provision for valuation and repurchase reserves represents adjustments to the valuation allowance for the Company s held for sale loans and adjustments to the Company s repurchase reserve for the effect of loans estimated to be repurchased.

Origination expenses allocated during the period of origination represent indirect expenses not directly attributable to specific loans but are related to the origination process of residential real estate loans during the period of origination and which are not deferred for GAAP. These expenses are included in non-interest expense in the consolidated statements of income during the period incurred. There is no directly comparable GAAP financial measure to Origination expenses allocated during the period of origination , the components of which are calculated in accordance with GAAP.

Net operating gain on sale is a supplement to, and not a substitute for, the information presented in the consolidated statements of income as prepared in accordance with GAAP. The Company utilizes this additional information as part of its management

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of the total costs and efficiency of its loan origination platform. Furthermore, our definition of indirect origination expenses may not be comparable to similarly titled measures reported by other companies. Because these expenses are estimates that are based on loans sold during the current period utilizing actual costs from prior periods, these costs may fluctuate from period to period reflecting changes in the volume of loans sold, originated and the actual indirect expenses incurred during the period of loan origination. The net operating gain on sale amount does not include net interest income on residential real estate loans held for sale or any fair value adjustments on the Company s residual interests in securitized loans.

The Company s non-interest income, other than net gains, increased during 2005 as compared to 2004 and the following table details the components:

	Year Ended December 31,	
	2005	**2004**
	(Thousands of dollars)	
Loan Servicing Income:		
Servicing fee income:		
Securitization transactions	$ 22,029	$ 11,217
Interim	32,618	18,806
Loans sold servicing retained	3,808	1,558
	58,455	31,581
Ancillary income	8,129	5,144
Other	3,096	(258)
	$ 69,680	$ 36,467
MSR Amortization and Impairment:		
MSR amortization	$ (21,341)	$ (10,202)
MSR impairment provision	2,042	(2,042)
	$ (19,299)	$ (12,244)
Other Non-Interest Income:		
Prepayment fees:		
Commercial real estate	$ 2,607	$ 6,514
Residential real estate	2,372	5,109
Commercial real estate transaction fees	8,404	5,339
Net loss on extinguishment of debt	(55)	(105)
All other	5,147	5,784
	$ 18,475	$ 22,641

The loan servicing income (which is all related to residential real estate) increased as a result of the increase in residential real estate loan origination volume. The increase in volume resulted in an increase in loan securitization activity and higher levels of interim servicing during 2005. The Company completed five securitizations and one whole loan sale with servicing retained in 2005 (for a total of $6.46 billion in loan principal) as compared to four securitization transactions (of $2.97 billion in loan principal) during 2004. The higher loan securitization activity

during 2005 also created higher levels of MSRs, which resulted in an increase in the amortization (expense) of the MSRs. The Company was servicing $22.3 billon in principal balance of loans as of December 31, 2005, this is compared to $15.0 billion as of December 31, 2004 and reflects the increase in loan servicing volume during 2005.

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Provision for Losses

The provision for loan losses was a $4.0 million credit (reversal) for 2005 as compared to a $6.8 million credit (reversal) for 2004, primarily as a result of a decrease in the net charge-offs experienced for the commercial real estate loans held for investment during 2005 as well as a decrease in the non-accrual and classified (substandard) commercial real estate portfolio loans. The net charge-off amounts and ratios for the commercial real estate portfolio were $10.7 million or 0.27% for 2005, $22.9 million or 0.59% for 2004 and $45.5 million or 1.17% for 2003. The provision for loan losses represents the current period expense (income) associated with maintaining an appropriate allowance for loan losses. The loan loss provision or credit for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition and concentrations of the loan portfolio, the number and balances of non-accrual loans, delinquencies, the levels of restructured loans, assessment by management of the inherent risk in the portfolio, the value of the underlying collateral on classified loans and the general economic conditions in the commercial real estate markets in which the Company lends. Periodic fluctuations in the provision for loan losses and the allowance for loan losses result from management s on-going assessment of their adequacy.

Non-Interest Expense

Non-interest expense increased from $357.2 million for the year ended December 31, 2004 to $367.6 million for the year ended December 31, 2005; an increase of approximately 3%. The primary driver of this increase over the prior year was the additional organizational expenses incurred to support the substantial increase in residential real estate loan origination volume, namely the occupancy, professional services and information technology expenses. Compensation expense decreased on a year-over-year basis primarily due to an increase in the capitalization level of direct loan origination costs during 2005. Compensation and non-compensation related operating expenses are detailed in the following tables:

	Year Ended December 31,	
	2005	2004
	(Thousands of dollars)	
Compensation and related	$ 234,961	$ 244,621
Occupancy	28,797	17,287
Other	103,815	95,253
Total non-interest expense	$ 367,573	$ 357,161

	Year Ended December 31,	
	2005	2004
	(Thousands of dollars)	
Total compensation and related	$ 514,181	$ 445,497
Deferral of loan origination costs [1]	(279,220)	(200,876)
Compensation and related	$ 234,961	$ 244,621

[1] Incremental direct costs associated with the origination of loans are deferred when incurred. For residential real estate loans, when the related loan is sold, the deferred costs are included as a component of net gain on sale.

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Other non-interest expense categories for the years ended December 31, 2005 and 2004 are summarized below:

	2005	2004
	(Thousands of dollars)	
Legal, professional and other outside services	$ 24,728	$ 23,257
Information technology	16,844	13,289
Printing, supplies and postage	16,378	11,466
Advertising promotion	11,945	9,226
Auto and travel	8,914	7,902
Leasing and loan expense	7,986	6,383
Net real estate owned expenses	(3,494)	4,628
Telephone	4,525	3,749
All other	15,989	15,353
Total other expenses	$ 103,815	$ 95,253

Income Taxes

Income tax expense of $221.0 million and $247.9 million for the years ended December 31, 2005 and 2004, respectively, represents effective tax rates of 40.3% and 41.2%, respectively, on income before income taxes from continuing operations of $548.9 million and $601.7 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.

2004 as compared to 2003

The Company recorded net income from continuing operations of $353.8 million for 2004 as compared to $212.0 million for 2003. This represents an increase of 67% for 2004 as compared to 2003. This increase is primarily the result of increased levels of net interest income, net gain on the sale of residential real estate loans, and a significantly lower (credit) provision for loan losses. The Company s total net income for 2003 was $256.3 million, which includes an after-tax gain of $44.3 million (recognized during the second quarter of 2003) on the reversal of the accrued liability for the potential cash contributions to the Company s discontinued insurance operations in regulatory liquidation.

Net Interest Income

Net interest income for 2004 was $468.8 million as compared to $363.7 million for 2003. The increase in net interest income is primarily a result of an increase in the volume of average interest-earning assets as indicated in the tables below. Average interest-earning assets increased 31% to $9.61 billion during 2004 as compared to $7.33 billion during 2003. The increase in average interest-earning assets is primarily a result of significantly higher level of residential real estate loans held for sale; this higher level is due to significantly higher origination levels of these loans. The net interest income margin (as a percentage of average interest-earning assets) decreased to 4.87% for 2004 from 4.96% for 2003; this decrease in the net interest margin is due primarily to a higher average liquidity (cash and cash equivalents) position during 2004. The following table identifies the consolidated interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins, as well as an analysis of changes in net interest income due to volume and rate changes, for the Company during 2004 and 2003.

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	Year Ended December 31,					
	2004			2003		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Thousands of dollars, except percents)					
Interest-earning assets [1]:						
Commercial real estate loans	$ 3,872,207	$ 290,973	7.51%	$ 3,890,473	$ 303,760	7.81%
Residential real estate loans [2]	5,213,984	366,613	7.03	3,193,199	235,670	7.38
Syndicated commercial loans	4,076	78	1.91	12,095	157	1.30
Residual interests in securitized loans	15,413	3,910	25.37	3,176	261	20.54
Cash equivalents and investment securities	508,028	9,750	1.92	233,258	6,025	2.58
Total interest-earning assets	$ 9,613,708	$ 671,324	6.98%	$ 7,332,201	$ 545,873	7.44%
Interest-bearing liabilities:						
Time deposits	$ 5,333,218	$ 115,951	2.17%	$ 3,917,879	$ 99,334	2.54%
Savings deposits	1,770,793	35,534	2.01	1,402,547	28,456	2.03
FHLB advances	1,306,847	25,092	1.92	1,133,807	25,167	2.22
Warehouse lines of credit		950	0.00	49,790	1,173	2.36
Senior Notes due 2004	4,709	372	7.90	37,588	3,031	8.06
Senior Notes due 2009	185,983	14,975	8.05	190,700	15,346	8.05
LYONs	639	33	5.16	2,558	131	5.12
Junior Subordinated Debentures	103,093	9,278	9.00	100,000	9,000	9.00
Other	12,487	380	3.04	41,023	525	1.28
Total interest-bearing liabilities	$ 8,717,769	$ 202,565	2.32%	$ 6,875,892	$ 182,163	2.65%
Net interest income		$ 468,759			$ 363,710	
Percent of average interest-earning assets:						
Interest income			6.98%			7.44%
Interest expense			2.11%			2.48%
Net interest margin			4.87%			4.96%

(1) Average loan balances include non-accrual loan balances.
(2) Includes loans held for sale and other.

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	December 31, 2004 Compared to 2003		
	Change Due To		
	Volume [1]	Rate	Total
	(Thousands of dollars)		
Cash equivalent and investment securities	$ 3,618	$ 107	$ 3,725
Loans	143,618	(21,892)	121,726
Total increase/ (decrease) in interest income	147,236	(21,785)	125,451
Time deposits	(30,771)	14,154	(16,617)
Savings deposits	(7,389)	311	(7,078)
FHLB advances	(3,322)	3,397	75
Warehouse lines of credit		223	223
Senior notes due 2004 and 2009	3,030		3,030
LYONs	98		98
Junior subordinated debentures/preferred securities	(278)		(278)
Other	868	(723)	145
Total (increase)/ decrease in interest expense	(37,764)	17,362	(20,402)
Increase/ (decrease) in net interest income	$ 109,472	$ (4,423)	$ 105,049

[1] Changes in rate/volume are allocated to change in volume.

Non-Interest Income

The gain on the sales and securitizations of residential real estate loans increased from $307.6 million in 2003 to $437.4 million for 2004. This increase is primarily attributable to a significant increase (103%) in the volume of loans sold and securitized in the two comparable years, partially offset by a significantly lower gross premium on loan sales and securitizations during 2004, as compared to 2003. A total of $22.51 billion in loans were sold (including loans sold via securitization and net of loans repurchased) during 2004, as compared to loan sales of $11.09 billion during 2003. The average gross premium on loans sold and securitized during 2003 was 4.22% as compared to an average of 3.53% for 2004. The average gross premiums realized during 2004 is consistent with the historical range of expected normal conditions. Such premiums have exhibited, and are expected to continue to exhibit, variability (often significant) based on various economic and interest rate environments. The gain percentage (the net gain after direct costs and adjustments to the carrying valuations of loans held for sale, divided by net loans sold) on these sales decreased from 2.77% in 2003 to 1.94% in 2004.

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	Year Ended December 31,	
	2004	2003
	(Thousands of dollars, except percents)	
Whole loan sales of residential real estate loans	$ 19,538,713	$ 9,907,821
Securitizations of residential real estate loans	2,968,764	1,180,496
Total loan sales and securitizations net of repurchases	$ 22,507,477	$ 11,088,317
Gross premium recognized on loan sales and securitizations	$ 793,801	$ 468,282
Net gain on derivative instruments	1,076	
	794,877	468,282
Direct costs of loan originations net	(313,733)	(145,346)
Provision for premium reversal	(28,140)	(10,720)
	453,004	312,216
Provision for valuation and repurchase reserves	(15,653)	(4,572)
Net gain on sale	$ 437,351	$ 307,644
Net gain on sale	$ 437,351	$ 307,644
Origination expenses allocated during the period of origination	(181,008)	(84,080)
Net operating gain on sale	$ 256,343	$ 223,564
Gross premium recognized on loan sales and securitizations	3.53%	4.22%
Net gain on derivative instruments	0.00%	0.00%
	3.53%	4.22%
Direct costs of loan originations	(1.39)%	(1.31)%
Provision for premium reversal	(0.13)%	(0.10)%
	2.01%	2.81%
Provision for valuation and repurchase reserves	(0.07)%	(0.04)%
Net gain on sale	1.94%	2.77%
Net gain on sale	1.94%	2.77%
Origination expenses allocated during the period of origination	(0.80)%	(0.76)%
Net operating gain on sale	1.14%	2.01%

Percentages are of total loan sales and securitizations, net of repurchases, during the period indicated.

Premium reversal is the reversal of premium on loans sold which either prepay early per the terms of each sales contract; includes some interest adjustment.

Provision for valuation and repurchase reserves represents adjustments to the valuation allowance for the Company s held for sale loans and adjustments to the Company s repurchase reserve for the effect of loans estimated to be repurchased.

Origination expenses allocated during the period of origination represent indirect expenses not directly attributable to specific loans but are related to the origination process of residential real estate loans during the period of origination and which are not deferred for GAAP. These expenses are included in non-interest expense in the consolidated statements of income during the period incurred. There is no directly comparable GAAP financial measure to Origination expenses allocated during the period of origination , the components of which are calculated in accordance with GAAP.

Net operating gain on sale is a supplement to, and not a substitute for, the information presented in the consolidated statements of income as prepared in accordance with GAAP. The Company utilizes this additional information as part of its management of the total costs and efficiency of its loan origination platform. Furthermore, our definition of indirect origination expenses may not be comparable to similarly titled measures reported by other companies. Because these expenses are estimates that are based on loans sold during the current period utilizing actual costs from prior periods, these costs may fluctuate from period to period reflecting changes in the volume of loans sold, originated and the actual indirect expenses incurred during the period of loan origination. The net operating gain on sale amount does not include net interest income on residential real estate loans held for sale or any fair value adjustments on the Company s residual interests in securitized loans.

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The Company s non-interest income, other than the net gains, increased during 2004 as compared to 2003 and the following tables detail the components:

	Year Ended December 31,	
	2004	2003
	(Thousands of dollars)	
Loan Servicing Income:		
Servicing fee income:		
Securitization transactions	$ 11,217	$ 1,386
Interim	18,806	7,079
Loans sold-servicing retained	1,558	
	31,581	8,465
Ancillary income	5,144	2,349
Other	(258)	(80)
	$ 36,467	$ 10,734
MSR Amortization and Impairment:		
MSR amortization	$ (10,202)	$ (1,050)
MSR impairment provision	(2,042)	
	$ (12,244)	$ (1,050)
Other Non-Interest Income:		
Prepayment fees:		
Commercial real estate	$ 6,514	$ 3,950
Residential real estate	5,109	5,185
Commercial real estate transaction fees	5,339	3,959
Net loss on extinguishment of debt	(105)	(1)
All other	5,784	4,340
	$ 22,641	$ 17,433

The loan servicing income (which is all residential real estate related) increased as a result of the increase in residential real estate loan origination volume. The increase in volume resulted in an increase in loan securitization activity and higher levels of interim servicing during 2004. During 2003, the Company completed two securitization transactions which totaled $1.18 billion in loan principal. This is as compared to four securitizations during 2004 with $2.97 billion in loan principal. The higher loan securitization activity during 2004 also created higher levels of MSRs, which resulted in an increase in the amortization expense of MSRs.

Provision for Losses

The provision for loan losses was a $6.8 million credit (reversal) balance for 2004 as compared to a $98.3 million expense for 2003, primarily as a result of a reduction in the outstanding loan balance of the commercial real estate loan portfolio, the transfer of the residential real estate loans classified as held for investment to loans held for sale during 2004 and a significant decrease in the net charge-offs experienced for the commercial real estate loans held for investment during 2004. In addition, the Company continued to reduce its exposure to commercial real estate loans

secured by hotel and lodging properties which had been the majority of the non-accrual loans and net charge-offs for 2004 and 2003 (see Loans Held for Investment and Allowance Activity for additional information). The net charge-off amounts and ratios for the commercial real estate portfolio were $22.9 million or 0.59% for 2004, $45.5 million or 1.17% for 2003 and $30.7 million or

0.87% for 2002. The provision for loan losses represents the current period expense (income) associated with maintaining an appropriate allowance for loan losses. The loan loss provision or credit for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition and concentrations of the loan portfolio, the number and balances of non-accrual loans, delinquencies, the levels of restructured loans, assessment by management of the inherent risk in the portfolio, the value of the underlying collateral on classified loans and the general economic conditions in the commercial real estate markets in which the Company lends. Periodic fluctuations in the provision for loan losses and the allowance for loan losses result from management s on-going assessment of their adequacy.

Non-Interest Expense

Non-interest expense increased from $253.6 million for the year ended December 31, 2003 to $357.2 million for the year ended December 31, 2004; an increase of approximately 41%. The primary driver of this increase over the prior year was the additional compensation and related organizational expenses incurred to support the substantial increase in residential real estate loan origination volume. Additional expense also resulted from the Company servicing a higher level of loans and having higher infrastructure expenses, such as occupancy, professional services and information technology. Compensation and non-compensation related operating expenses are detailed in the following tables:

	Year Ended December 31,	
	2004	2003
	(Thousands of dollars)	
Compensation and related	$ 244,621	$ 172,324
Occupancy	17,287	11,678
Other	95,253	69,589
Total non-interest expense	$ 357,161	$ 253,591

	Year Ended December 31,	
	2004	2003
	(Thousands of dollars)	
Total compensation and related	$ 445,497	$ 290,548
Deferral of loan origination costs [1]	(200,876)	(118,224)
Compensation and related	$ 244,621	$ 172,324

[1] Incremental direct costs associated with the origination of loans are deferred when incurred. For residential real estate loans, when the related loan is sold, the deferred costs are included as a component of net gain on sale.

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Other non-interest expense for the years ended December 31, 2004 and 2003 are summarized below:

	2004	2003
	(Thousands of dollars)	
Legal, professional and other outside services	$ 23,257	$ 12,745
Information technology	13,289	6,184
Printing, supplies and postage	11,466	7,479
Advertising and promotion	9,226	6,022
Auto and travel	7,902	5,860
Leasing and loan expense	6,383	7,933
Net real estate owned expenses	4,628	3,901
Telephone	3,749	2,721
All other	15,353	16,744
Total other expenses	$ 95,253	$ 69,589

During 2003, the Company extinguished $49.3 million in principal amount of its 7.70% Senior Notes due 2004, resulting in no gain or loss. During March 2004, the Company paid off at maturity the remaining $22.4 million in principal amount of its 2004 Senior Notes. The Company also extinguished $9.3 million in principal amount of its 7.875% Senior Notes due 2009, resulting in a pre-tax loss of $105,000.

Income Taxes

Income tax expense of $247.9 million and $152.2 million for the years ended December 31, 2004 and 2003, respectively, represents effective tax rates of 41.2% and 41.8%, respectively, on income before income taxes from continuing operations of $601.7 million and $364.1 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.

During the second quarter of 2003, the Company recognized a net of tax gain of $44.3 million from the reversal of its accrued liability for potential future cash contributions to its discontinued workers compensation insurance subsidiary, Fremont Indemnity. The gain represents the reversal of the liability accrued for the total maximum amount of cash contributions under the Agreement of $72.9 million 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 Fremont General to provide any further cash contributions to Fremont Indemnity.

Loans Held for Investment and Allowance Activity

The Company s net loans held for investment, before the allowance for loan losses, were approximately $4.76 billion at December 31, 2005, as compared to $3.48 billion at December 31, 2004 and $4.79 billion at December 31, 2003. The increase between the years was primarily the result of the significant increase in commercial real estate loan originations during 2005 as compared to 2004. The significant decrease in 2004 was primarily the result of the reclassification of $912 million of residential real estate loans held for investment into loans held for sale during the third quarter of 2004, as well as a higher than normal level of loan run-off in the commercial real estate loans during the fourth quarter of 2004. New loan commitments, net of participations, for commercial real estate loans, increased from $2.7 billion during 2004 to $5.9 billion for 2005. The following

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table shows the Company s loans held for investment in the various financing categories and the percentages of the total represented by each category:

	As of December 31,									
	2005		2004		2003		2002		2001	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Thousands of dollars, except percents)									
Commercial real estate										
Bridge	$ 1,887,073	39 %	$ 1,512,532	43 %	$ 1,659,847	34 %	$ 1,712,085	41 %	$ 1,653,970	42 %
Construction	2,448,428	51 %	1,020,370	29 %	804,793	17 %	328,974	8 %	263,587	7 %
Permanent	389,681	8 %	805,760	23 %	1,281,877	27 %	1,393,427	34 %	1,320,993	34 %
Single tenant credit	77,113	2 %	177,193	5 %	268,506	5 %	296,787	7 %	307,320	8 %
	4,802,295	100 %	3,515,855	100 %	4,015,023	83 %	3,731,273	90 %	3,545,870	91 %
Residential real estate					789,951	17 %	392,061	9 %	195,643	5 %
Syndicated commercial					6,857		26,216	1 %	113,504	3 %
Other	8,589		4,526		4,615		4,272		22,555	1 %
	4,810,884	100 %	3,520,381	100 %	4,816,446	100 %	4,153,822	100 %	3,877,572	100 %
Deferred fees and costs	(50,984)	(1)%	(35,767)	(1)%	(25,436)		(15,937)		(16,171)	
Allowance for loan losses	(156,837)	(3)%	(171,525)	(5)%	(213,591)	(5)%	(161,190)	(4)%	(104,179)	(3)%
Loans held for investment	$ 4,603,063	96 %	$ 3,313,089	94 %	$ 4,577,419	95 %	$ 3,976,695	96 %	$ 3,757,222	97 %

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The following tables provide additional information related to the Company s non-accrual loans and foreclosed assets (non-performing assets), restructured loans on accrual status and loans on accrual status which are 90 days or more past due, as well as reflect the related net loss experience and allowance for loan loss reconciliation applicable to the loans held for investment as of or for the years ended as shown below:

	December 31,				
	2005	2004	2003	2002	2001
	(Thousands of dollars, except percents)				
Non-accrual loans held for investment (HFI):					
Commercial real estate loans	$ 29,290	$ 82,289	$ 71,758	$ 70,031	$ 68,921
Residential real estate loans			8,482	5,600	2,531
Syndicated commercial loans			6,752	11,239	3,397
Other					104
	$ 29,290	$ 82,289	$ 86,992	$ 86,870	$ 74,953
Real estate owned (REO):					
Commercial real estate loans	$ 30,198	$ 21,344	$ 23,621	$ 10,598	$ 19,329
Residential real estate loans		153	643	315	4,260
	$ 30,198	$ 21,497	$ 24,264	$ 10,913	$ 23,589
Total non-performing assets (NPA)	$ 59,488	$ 103,786	$ 111,256	$ 97,783	$ 98,542
Accruing loans receivable past due 90 days or more:					
Commercial real estate loans	$	$	$ 36,406	$	$ 15,586
Other					4
	$	$	$ 36,406	$	$ 15,590
Restructured commercial real estate loans on accrual status	$ 12,309	$ 9,302	$ 180,059	$ 140,300	$
Non-accrual loans to total loans HFI	0.62%	2.36%	1.82%	2.10%	1.94%
Allowance for loan losses to total loans HFI	3.29%	4.92%	4.46%	3.90%	2.70%
Allowance for loan losses to non-performing assets	263.6%	165.3%	192.0%	164.8%	105.7%

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	December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Thousands of dollars, except percents)				
Beginning allowance for loan losses	$ 171,525	$ 213,591	$ 161,190	$ 104,179	$ 67,599
Provision for loan losses	(3,974)	(6,842)	98,262	108,118	53,374
Reclass of allowance for loan commitments				(3,259)	
Charge-offs:					
Commercial real estate loans	(17,533)	(23,847)	(46,122)	(32,409)	(7,897)
Residential real estate loans [(1)]		(10,259)	(414)	(658)	(684)
Syndicated commercial loans		(2,936)	(199)	(16,524)	(9,332)
Other					
Total charge-offs	$ (17,533)	$ (37,042)	$ (46,735)	$ (49,591)	$ (17,913)
Recoveries:					
Commercial real estate loans	6,801	978	636	1,700	1,001
Residential real estate loans	6	344	127	29	112
Syndicated commercial loans	12	496	110		
Other			1	14	6
Total recoveries	6,819	1,818	874	1,743	1,119
Ending allowance for loan losses	$ 156,837	$ 171,525	$ 213,591	$ 161,190	$ 104,179
Net charge-offs	$ 10,714	$ 35,224	$ 45,861	$ 47,848	$ 16,794
Net charge-offs to average total loans HFI	0.27%	0.81%	1.04%	1.18%	0.45%
Allocation of allowance for loan losses:					
Commercial real estate loans	$ 156,755	$ 171,471	$ 195,000	$ 147,228	$ 92,676
Residential real estate loans			15,607	7,844	7,534
Syndicated commercial loans			2,983	6,118	3,986
Other	82	54	1		(17)
Total allowance for loan losses	$ 156,837	$ 171,525	$ 213,591	$ 161,190	$ 104,179

(1) Includes $9,856 fair value adjustment in 2004 for loans transferred to held for sale.

Non-accrual loans decreased during 2005 to $29.3 million at December 31, 2005 from $82.3 million at December 31, 2004. There were no loans on accrual status, as of December 31, 2005, which were 90 days or greater past due. The level of non-performing assets fluctuates and specific loans can have a material impact upon the total. As of December 31, 2005, non-accrual commercial real estate loans and REO were comprised of five non-accrual loans and seven REO properties, as compared to 13 non-accrual commercial real estate loans and eight REO properties at December 31, 2004 and 14 non-accrual commercial real estate loans and nine REO properties at December 31, 2003. Consideration must be given that, due to the secured nature of the Company s loans and the presence of larger-balance loans, the classification, and the timing thereof, of an individual loan as non-performing or REO can have a significant impact upon the level of total non-performing assets, without necessarily having a commensurate increase in loss exposure. See Notes 5 and 6 of Notes to Consolidated Financial Statements for additional detail on non-performing assets.

Restructured loans on accrual status are those loans where the Company has made certain concessionary modifications to the contractual terms of the loan agreement (either a reduction in interest or principal) due to

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financial difficulties experienced by the borrower. The loan is classified as a restructured loan on accrual status if it is performing in accordance with the agreed upon loan terms and the projected cash proceeds are deemed sufficient to repay both principal and interest. These loans are presented as such in the period of restructure and the three subsequent quarters. During the year ended December 31, 2005, there were two commercial real estate loans with a total balance of $20.5 million that were modified in connection with loan restructurings; of these two loans, one was completely paid off as of year end. The Company incurred a total of $155,000 in net loan charge-offs related to the restructuring of these two loans during 2005. During 2004 there were four commercial real estate loans with a total balance of $42.5 million that were modified in connection with loan restructurings. The Company incurred a total of $2.1 million in net loan charge-offs related to the restructuring of these four loans during 2004, of which $1.7 million was related to one individual loan. During 2003, there were 18 commercial real estate loans with a total balance of $178.2 million that were modified in connection with loan restructurings. The Company incurred a total of $13.4 million in net loan charge-offs related to the restructuring of these 18 loans during 2003, of which $10.9 million was related to four individual loans.

Loans secured by hotel and lodging properties represented 86% and 55% of the total commercial real estate loans on non-accrual status as of December 31, 2005 and 2004, respectively. The allowance for loan losses as a percentage of total loans held for investment decreased to 3.29% as of December 31, 2005, as compared to 4.92% and 4.46% at December 31, 2004 and 2003, respectively. The net charge-off ratio for commercial real estate loans for 2005 decreased to 0.27% as compared to 0.59% for 2004 and 1.17% for 2003, as a result of significantly lower net charge-offs.

Discontinued Insurance Operations

The property and casualty insurance operation, which was primarily represented by the underwriting of workers compensation insurance policies, was classified as discontinued in the fourth quarter of 2001. The intention at that time was to allow the liabilities (primarily loss and loss adjustment expense reserves) related to the discontinued insurance business to run-off and, as a result, the property and casualty insurance operation was accounted for as a discontinued operation using the liquidation basis of accounting. Accordingly, the Company s operating results for 2001 and prior periods were restated to reflect the reporting in this manner for all periods presented. In July 2002, the Company and its discontinued workers compensation insurance subsidiary, Fremont Indemnity Company (Fremont Indemnity) entered into an agreement (the Agreement) with the California Department of Insurance (the DOI) that allowed Fremont Indemnity, with the oversight of the DOI, to self-administer the run-off of its operations by paying claims and operating expenses in the ordinary course of business. Further, as a result of the restrictions in the Agreement with the DOI, the additional adverse loss development, and actions taken by the DOI in the fourth quarter of 2002 to further restrict Fremont Indemnity s ability to direct the run-off of the discontinued business and manage the other activities of the operations, the Company concluded that it no longer had effective control of these operations. Accordingly, the assets and liabilities of the discontinued insurance operations as of December 31, 2002 were removed from the consolidated balance sheets of the Company.

The State of California Insurance Commissioner (the Commissioner) sought, and was granted, an order of conservation over Fremont Indemnity 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 Commissioner further sought, and was granted, an order of liquidation over Fremont Indemnity by the Superior Court of the State of California for the County of Los Angeles on July 2, 2003. Pursuant to the provisions of the Agreement, the granting of an order of conservation and/or liquidation prior to March 1, 2004 extinguishes the obligation of Fremont General to provide any further cash contributions to Fremont Indemnity. As a result of these actions, during the second

quarter of 2003, the Company recognized a net of tax gain of $44.3 million from the reversal of this liability for potential future cash contributions to Fremont Indemnity.

While Fremont General owns 100% of the common stock of Fremont Indemnity, its assets and liabilities are excluded from the accompanying Consolidated Balance Sheets as the Company no longer has effective control over the operation of this subsidiary. For additional detail on the discontinuance of the property and casualty insurance operation see Notes 22 and 23 of Notes to Consolidated Financial Statements.

Market Risk

The Company is subject to market risk resulting primarily from the impact of fluctuations in interest rates upon balance sheet financial instruments such as loans, residual interests, mortgage servicing rights, debt and derivatives. Changes in interest rates can affect loan interest income, gains on the sale of residential real estate loans, interest expense, loan origination volume, net investment income, and total stockholders equity. The level of gain on the sale and securitization of residential real estate loans is highly dependent upon the level of loan origination volume, the premium paid by the purchasers of such loans and the gain or loss realized from hedging activities. Each of these factors, in turn, are highly dependent upon changes in, and the level of, interest rates and other economic factors. The Company may experience a decrease in the amount of gain it realizes should significant interest rate volatility occur or if other economic factors have a negative impact on the value and volume of the loans the Company originates. The objective of the asset and liability management activities is to provide a high level of net interest and investment income, and to seek cost effective sources of capital, while maintaining acceptable levels of interest rate and liquidity risk. There is no exposure to foreign currency or commodity price risk.

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

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

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The following table provides information about the assets and liabilities of the Company that are sensitive to changes in interest rates. For loans, investments, deposits and other liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturity, adjusted for estimated loan prepayments based upon the historical behavior of the loans. Deposits that have no contractual maturity are presented as maturing in 2005.

Interest Rate Sensitivity