

FREMONT GENERAL CORP

Form 10-Q

October 17, 2007

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United States Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2007

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from _____ to _____

Commission File Number 001-08007

Fremont General Corporation

(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or other jurisdiction of incorporation or organization)

95-2815260

(I.R.S. Employer Identification No.)

2425 Olympic Boulevard

Santa Monica, California 90404

(Address of principal executive offices) (Zip Code)

(310) 315-5500(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act.):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

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

Class	Shares Outstanding September 28, 2007
Common Stock, \$1.00 par value	79,630,085

Fremont General Corporation and Subsidiaries

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Consolidated Balance Sheets

	June 30,	December 31,
(Thousands of dollars, except share data)	2007	2006
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 3,226,354	\$ 761,642
Investment securities classified as available-for-sale at fair value	548	633
Federal Home Loan Bank stock at cost	25,000	111,860
Loans held for investment net	2,272	6,257,306
Commercial real estate loans held for sale net	5,985,233	
Accrued interest receivable	40,381	53,497
Real estate owned net	65,834	299
Premises and equipment net	28,787	67,859
Deferred income taxes net	12,504	52,576
Other assets	334,860	268,932
Assets of discontinued operations held for sale	955,313	5,315,920
TOTAL ASSETS	\$ 10,677,086	\$ 12,890,524
LIABILITIES		
Deposits:		
Savings accounts	\$ 1,261,829	\$ 1,101,137
Money market deposit accounts	415,611	586,158
Certificates of deposit	8,003,705	8,302,493
	9,681,145	9,989,788
Senior Notes due 2009	166,039	165,895
Junior Subordinated Debentures	103,093	103,093
Other liabilities	169,643	210,586
Liabilities of discontinued operations held for sale	275,226	1,307,205
TOTAL LIABILITIES	10,395,146	11,776,567
STOCKHOLDERS EQUITY		
Preferred stock, par value \$.01 per share Authorized: 2,000,000 shares; none issued		
Common stock, par value \$1 per share Authorized: 150,000,000 shares; issued and outstanding: (2007 79,990,000 and 2006 79,074,000)	77,298	75,983

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Additional paid-in capital	345,233	324,064
Retained earnings	(130,381)	728,766
Deferred compensation	(12,181)	(20,694)
Accumulated other comprehensive income	1,971	5,838
TOTAL STOCKHOLDERS EQUITY	281,940	1,113,957
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 10,677,086	\$ 12,890,524

The accompanying notes are an integral part of these statements.

2007 QUARTERLY REPORT 3

Table of ContentsFremont General Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Thousands of dollars, except per share data)	2007	2006	2007	2006
INTEREST INCOME:				
Interest and fee income on loans:				
Commercial	\$ 141,670	\$ 126,526	\$ 291,244	\$ 236,060
Other	153	(86)	192	1
	141,823	126,440	291,436	236,061
Interest income other	27,699	7,185	40,532	13,954
	169,522	133,625	331,968	250,015
INTEREST EXPENSE:				
Deposits	96,001	47,654	178,006	83,654
Senior Notes	3,350	3,464	6,700	7,010
Junior Subordinated Debentures	2,319	2,319	4,639	4,639
	101,670	53,437	189,345	95,303
Net interest income	67,852	80,188	142,623	154,712
Provision for loan losses	(39)	11,706	182	15,601
	67,891	68,482	142,441	139,111
Other non-interest income	2,223	4,083	1,456	6,304
	70,114	72,565	143,897	145,415
NON-INTEREST EXPENSE:				
Compensation and related	52,755	25,761	74,457	52,401
Occupancy	4,079	3,426	9,885	6,849
Other	32,824	10,701	56,691	29,525
	89,658	39,888	141,033	88,775
INCOME (LOSS) BEFORE INCOME TAXES	(19,544)	32,677	2,864	56,640
Income tax expense (benefit)	(7,399)	12,996	2,780	22,607
	(12,145)	19,681	84	34,033
Income (loss) from continuing operations	(253,038)	32,243	(855,878)	49,578

Income (loss) from discontinued operations, net of income taxes of \$(3,181) and \$21,265, and \$(82,876) and \$33,115 for the three and six months ended June 30, 2007 and 2006, respectively

Net income (loss)	\$ (265,183)	\$ 51,924	\$ (855,794)	83,611
EARNINGS PER SHARE:				
Basic:				
Income (loss) from continuing operations	\$ (0.16)	\$ 0.26	\$ 0.00	\$ 0.46
Income (loss) from discontinued operations, net of income taxes	(3.29)	0.44	(11.26)	0.67
Net income (loss)	\$ (3.45)	\$ 0.70	\$ (11.26)	\$ 1.13
Diluted:				
Income (loss) from continuing operations	\$ (0.16)	\$ 0.26	\$ 0.00	\$ 0.45
Income (loss) from discontinued operations, net of income taxes	(3.29)	0.42	(11.10)	0.65
Net income (loss)	\$ (3.45)	\$ 0.68	\$ (11.10)	\$ 1.10
Cash Dividends Declared per Common Share	\$	\$ 0.11	\$	\$ 0.22

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Thousands, except per share amounts)	Common Stock		Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Accumulated	
	Number of Outstanding Shares	Amount				Other Comprehensive Income	
at December 31, 2005	77,497	\$ 77,497	\$ 341,800	\$ 966,112	\$ (43,357)	\$ 14,754	\$ 1,330,306
Dividends declared \$0.22 per share				83,611			(83,611)
Reclassification of deferred compensation				(17,084)			(17,084)
Issuance of restricted stock		(1,485)	(19,417)		20,902		
Repurchase of common stock	(18)	(35)	35				
Shares issued, acquired or allocated for employee benefit plans	389		(862)		(20,780)		(21,642)
Issuance of restricted stock			7,386				7,386
Shares allocated to ESOP			(1,370)		24,315		22,945
Change in cost of common stock held in trust					(2,376)		(2,376)
Change in unrealized gain on investments and residual interests, net of deferred taxes							4,921
Tax benefits relating to share-based payments			2,050				2,050
Other adjustments			(347)		347		
at June 30, 2006	77,868	\$ 75,977	\$ 329,275	\$ 1,032,639	\$ (20,949)	\$ 19,675	\$ 1,441,647
at December 31, 2006	79,074	\$ 75,983	\$ 324,064	\$ 728,766	\$ (20,694)	\$ 5,838	\$ 1,143,939
Dividends adjustment				(855,794)			(855,794)
Reclassification of FIN No. 48				34			34
Repurchase of common stock	(389)	(100)	100	(3,387)			(3,387)
Issuance of restricted stock vested		130	14,656				14,786
Shares issued, acquired or allocated for employee benefit plans	20		(2,920)		(4,983)		(7,903)
Issuance of restricted stock			2,195				2,195
Shares allocated to ESOP	1,285	1,285	8,249		3,334		12,868
Change in cost of common stock held in trust					9,051		9,051
Change in unrealized gain on investments and residual interests, net of taxes							(3,867)
Fair value adjustment			(1,111)		1,111		

at June 30, 2007

79,990 \$ 77,298 \$ 345,233 \$ (130,381) \$ (12,181) \$ 1,971 \$ 2

The accompanying notes are an integral part of these statements.

2007 QUARTERLY REPORT 5

Table of ContentsFremont General Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(Thousands of dollars)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (855,794)	\$ 83,611
Less: income (loss) from discontinued operations	(855,878)	49,578
Income from continuing operations	84	34,033
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Provision for loan losses	182	15,601
Provision for deferred income taxes	(10,614)	9,386
Depreciation and amortization	14,007	319
Compensation expense related to deferred compensation plans	4,063	6,109
Change in accrued interest	22,583	(20,016)
Change in other assets	(219,359)	13,814
Change in accounts payable and other liabilities	(48,853)	(34,901)
Originations and advances funded for commercial real estate loans held for sale	(1,664,535)	
Payments received from and sales of commercial real estate loans held for sale	1,879,131	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES CONTINUING OPERATIONS	(23,311)	24,345
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES DISCONTINUED OPERATIONS	3,744,709	(595,079)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,721,398	(570,734)
CASH FLOWS FROM INVESTING ACTIVITIES		
Originations of loans held for investment		(1,943,078)
Payments received from and sales of loans held for investment		1,038,919
Investment securities available for sale:		
Purchases		
Maturities or repayments	188	127
Net purchases of FHLB stock	86,860	(75,482)
Purchases of premises and equipment	(5,092)	(10,736)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES CONTINUING OPERATIONS	81,956	(990,250)
NET CASH PROVIDED BY INVESTING ACTIVITIES DISCONTINUED OPERATIONS	53,394	96,228

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	135,350	(894,022)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits accepted, net of repayments	(308,643)	960,964
Extinguishment of Senior Notes and LYONs		(5,933)
Dividends paid	(9,489)	(16,269)
Excess tax benefits related to share-based payments		2,050
Purchase of Company common stock for deferred compensation plans	(13,904)	(33,403)
NET CASH PROVIDED BY (USED IN) BY FINANCING ACTIVITIES		
CONTINUING OPERATIONS	(332,036)	907,409
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
DISCONTINUED OPERATIONS	(1,060,000)	356,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	(1,392,036)	1,263,409
Increase (decrease) in cash and cash equivalents	2,464,712	(201,347)
Cash and cash equivalents at beginning of period	761,642	768,643
Cash and cash equivalents at end of period	\$ 3,226,354	\$ 567,296

The accompanying notes are an integral part of these statements.

6 FREMONT GENERAL CORPORATION AND SUBSIDIARIES

Table of ContentsFremont General Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	\$ (265,183)	\$ 51,924	\$ (855,794)	\$ 83,611
Other comprehensive income (loss):				
Net change in unrealized gains (losses) during the period:				
Residual interests in securitized loans	(4,847)	11,399	(6,408)	6,033
Investment securities	(1)	92	(2)	2,058
	(4,848)	11,491	(6,410)	8,091
Less income tax expense (benefit)	(1,923)	4,542	(2,543)	3,170
Other comprehensive income (loss)	(2,925)	6,949	(3,867)	4,921
Total comprehensive income (loss)	\$ (268,108)	\$ 58,873	\$ (859,661)	\$ 88,532

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Fremont General Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 BASIS OF PRESENTATION

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), through its California industrial bank subsidiary, Fremont Investment & Loan (FIL). FIL offers certificates of deposit and savings and money market deposit accounts through its 22 retail banking branches in California. FIL's deposit accounts are insured up to the maximum legal limit by the Federal Deposit Insurance Corporation (FDIC). During the six month period ended June 30, 2007, the Company was engaged in the commercial and residential (consumer) real estate lending businesses on a nationwide basis.

Concurrently with the filing of this report, the Company is filing its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007. We urge you to read these reports, which can be obtained from Fremont General's website at www.fremontgeneral.com, or the SEC's website at www.sec.gov, or by contacting our Investor Relations Department at 310/315-5500 or by sending an email message to invrel@fmt.com.

Exit from Sub-prime Mortgage Business; Cease and Desist Order. During the first quarter of 2007, the sub-prime market experienced a significant deterioration that included increases in borrower delinquencies and a deterioration of credit that resulted in a substantial increase in the amount of residential loan repurchases and repricings resulting from early payment defaults and breaches of representations and warranties.

During the second quarter of 2007, the Company recorded provisions of \$124.4 million and \$125.9 million to its valuation and repurchase reserves, respectively, and \$517.7 million and \$256.6 million, respectively, during the six months ended June 30, 2007. For further information concerning the changes to these reserves see Note 4.

On March 2, 2007, the Company announced that it intended to exit its sub-prime residential real estate lending operations. This move was consistent with regulatory guidelines issued that day, and was prompted by the Company's receipt on February 27, 2007 of a proposed Cease and Desist Order (the Order) from the FDIC calling for the Company to make a variety of changes designed to restrict the level of lending in its sub-prime residential mortgage business as well as the Company's analysis of the deterioration of the sub-prime residential real estate market. On March 7, 2007, the Company announced that it had ceased entering into new funding commitments with respect to sub-prime mortgage loans, although it would honor remaining outstanding commitments.

On March 7, 2007, Fremont General, FGCC and FIL consented to the Order without admitting to the allegations contained in the Order.

The Order requires, among other things, that FIL make a variety of changes in its sub-prime residential loan origination business and also calls for certain changes in its commercial real estate lending business. As more fully described elsewhere in this report, the Company has exited its sub-prime residential real estate operations and has sold its commercial real estate lending business and related loan portfolio. In addition, the Order requires that FIL adopt a Capital Adequacy Plan to maintain adequate Tier-1 capital in relation to its risk profile. Further, the Order mandates various specific management requirements, including having and retaining qualified management acceptable to the FDIC and the Department of Financial Institutions of the State of California (DFI), and provides for enhanced regulatory oversight over FIL's operations. The Order is more fully described in a Current Report on Form 8-K filed by the Company on March 7, 2007.

Residential Real Estate Transactions. On March 21, 2007, the Company announced that FIL had entered into whole loan sale agreements to sell approximately \$4 billion of its sub-prime residential real estate loans. On April 16, 2007, the Company announced that FIL had entered into an agreement to sell another \$2.9 billion of sub-prime residential real estate loans, which represented the majority of the Company's sub-prime residential loans held for sale that had not yet been sold. The Company is in discussions with various

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parties with respect to the sale of the Company's sub-prime residential loan servicing platform and other assets. There can be no assurances that the Company will be able to enter into any transaction with respect to such business. In addition, given the significant market challenges that currently exist in the residential real estate sector, even if such transactions are completed, there can be no assurances that the consideration received in such sales will provide substantial benefit to the Company's operating results or financial position.

Subsequent Events

Commercial Real Estate Transaction. On July 2, 2007, FIL completed the disposition of its commercial real estate lending business and related loan portfolio to *iStar Financial Inc.* (*iStar*) pursuant to an Asset Purchase Agreement entered into on May 21, 2007. FIL sold its entire \$6.27 billion commercial real estate loan portfolio to *iStar* and received \$1.89 billion in cash plus a \$4.21 billion participation interest in the sold portfolio. The \$1.89 billion in cash represented 30% of the unpaid principal balance of the loan portfolio as of the closing, net of a purchase discount. The \$4.21 billion participation interest in the total loan portfolio represented 70% of the unpaid principal balance of the loan portfolio as of the closing, net of a purchase discount. The participation interest bears interest at LIBOR + 150 basis points. FIL's participation interest in the loan portfolio is governed by a participation agreement pursuant to which FIL is entitled to receive 70% of all principal payments on the loans sold to *iStar*, including with respect to any portion of the unfunded commitments with respect to such loans that are subsequently funded by *iStar*. Additionally, *iStar* purchased a majority of the non-loan assets used in the business for \$50 million in cash. In connection with the transaction, *iStar* assumed all obligations with respect to the loan portfolio after the closing date (including the obligation to fund approximately \$3.72 billion of existing unfunded commitments) and the obligations under certain assumed leases and intellectual property contracts. As of the closing date, *iStar* employed substantially all of the employees previously engaged in the Company's commercial real estate lending business.

Transaction with Gerald J. Ford. On May 21, 2007, Fremont General and FIL entered into an Investment Agreement with an entity controlled by Gerald J. Ford providing for the acquisition by an investor group led by Mr. Ford of a combination of approximately \$80 million in exchangeable non-cumulative preferred stock of FIL and warrants to acquire additional common stock of Fremont General. On September 26, 2007, the Company announced that it had been advised by Mr. Ford that, in light of certain developments pertaining to Fremont General and FIL, Mr. Ford was not prepared to consummate such transactions on the terms set forth in the Investment Agreement. The Company said that, while it does not necessarily agree with the factual positions taken by Mr. Ford, it is in discussions with Mr. Ford concerning revised terms under which an entity controlled by Mr. Ford would proceed with an \$80 million investment in exchangeable preferred stock of FIL and receive warrants to acquire additional common stock of Fremont General. There can be no assurances as to whether or when the parties may reach an agreement with respect to revised transaction terms.

Discontinued Operations

As more fully described above, in March 2007, the Company decided to exit the residential real estate business and to sell substantially all of the assets related to such business. In accordance with Statement of Financial Accounting Standards (*SFAS*) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (*SFAS* No. 144), the Company has classified the residential real estate operations as discontinued operations as the cash flow of the business has been eliminated from its ongoing operations and the Company will no longer have any significant continuing involvement in the business. Therefore, the results of operations, financial position and cash flows of the Company's residential real estate operations are presented separately in the consolidated financial statements and notes as discontinued operations for all periods presented.

When an operation meets the criteria for held for sale accounting as defined in *SFAS* No. 144, the operation is evaluated to determine whether the carrying value exceeds its fair value less costs to sell. Any loss resulting from the carrying value exceeding the fair value less costs to sell is recorded in the statement of operations in the period the operation meets the criteria for held for sale accounting. Management judgment is required to both assess the criteria

required for held for sale accounting as well as to estimate fair value. Changes in the operation could cause it to no longer qualify for held for sale accounting and changes in fair value could result

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in an increase or decrease to previously recognized losses. For additional information concerning the Company's discontinued operations see Note 4.

General

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts and operations of Fremont General and its subsidiaries including those variable interest entities where the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary for the fair presentation of the interim financial statements have been included. See Note 4 for additional information concerning the results of the Company's discontinued operations and Note 7 for information concerning exit costs related to the disposal of the Company's commercial real estate lending business and related loan portfolio. The operating results for the six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE 2 RECENT ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 requires companies to evaluate their interests in securitized financial assets and determine whether the interests are freestanding derivatives or hybrid financial instruments that may be subject to bifurcation. SFAS No. 155 provides companies with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company adopted SFAS No. 155 as of January 1, 2007 without any significant impact on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 requires entities to separately recognize a servicing asset or liability when undertaking an obligation to service a financial asset under a servicing contract in certain situations, including a transfer of the servicer's financial assets that meets the requirements for sale accounting. SFAS No. 156 requires that any such servicing asset or liability be initially measured at fair value, if practicable, and then provides the option to either: (1) carry the mortgage servicing rights (MSRs) at fair value with changes in fair value recognized in current period earnings; or (2) continue recognizing periodic amortization expense and assess the MSRs for impairment as originally required by SFAS No. 140. The Company adopted SFAS No. 156 effective January 1, 2007 without any impact; electing to continue to record periodic amortization expense as originally required under SFAS No. 140.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a two-step approach for the recognition and measurement of a tax position taken or expected to be taken in an entity's tax return. The first step in the evaluation of a tax position is recognition: The Company must determine whether it is more likely than not that a given tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on

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the technical merits of the position. In this evaluation the Company must presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position meeting the more-likely-than-not recognition threshold is recorded at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company adopted FIN No. 48 effective January 1, 2007 resulting in a charge to beginning retained earnings of \$3.4 million. See Note 8 for further information on the impact of adopting FIN No. 48 and other tax related information.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and provides for expanded disclosures concerning fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value; however, focuses on the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 also establishes a fair value hierarchy used to classify the source of information used by the entity in fair value measurements. That is, assumptions developed based on market data obtained from independent sources (observable inputs) versus the entity's own assumptions about market assumptions developed based on the best information available in the circumstances (unobservable inputs).

The Company is currently evaluating the impact of adopting SFAS No. 157; however, the Company does not believe the adoption will have a significant impact on its financial position or results of operations. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 allows entities the option to measure many financial instruments and certain other items at fair value at specified election dates with changes in fair value reported in earnings. The fair value option may be applied on an instrument by instrument basis (with some exceptions), is irrevocable (unless a new election date occurs) and is applied only to entire instruments and not to portions of instruments. The FASB indicated that the objective of this statement is to improve financial reporting by providing entities the opportunity to mitigate volatility in reported earnings that are caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. The Company is currently evaluating the impact of adopting SFAS No. 159. SFAS No. 159 is effective for the Company's fiscal year beginning January 1, 2008.

NOTE 3 CASH AND CASH EQUIVALENTS

From December 31, 2006 to June 30, 2007, the Company increased its total cash and cash equivalents by approximately \$2.46 billion. This increase was funded by a growth in deposits and debt financing during the first six months of 2007. The normal deployment of increased deposits and debt to fund new loan growth was curtailed due to the decision to exit the sub-prime loan origination business during the first quarter of 2007 coupled with the ongoing sale of residential real estate mortgage loans held for sale during the first six months of 2007.

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

(Thousands of dollars)	June 30, 2007	December 31, 2006
Cash on hand	\$ 256	\$ 248
Deposits in other financial institutions	59,806	118,228

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Short-term money market funds	25,084	46,971
FHLB shareholder transaction account	350,169	397,548
Federal Reserve account	11,874	2,078
Federal funds sold	243,633	
U.S. Government Agency money market fund	2,189,927	169,545
Short-term commercial paper	345,605	27,024
Total cash and cash equivalents	\$ 3,226,354	\$ 761,642

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The FHLB shareholder transaction account represents a short-term interest-bearing account with the Federal Home Loan Bank of San Francisco. The Company's commercial paper holdings have ratings of A1 / P1 or better. The short-term money market funds have AAA / Aaa money market fund ratings. As of June 30, 2007, \$1.3 million in deposits in other financial institutions were restricted. No other cash and cash equivalents were restricted as of June 30, 2007 and December 31, 2006.

NOTE 4 DISCONTINUED OPERATIONS

As more fully described in Note 1, in March 2007, the Company decided to exit the residential real estate business and sell substantially all of the assets related to such business. The Company has determined there are no migration of revenues or costs as defined in EITF 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations (EITF 03-13), since the Company is disposing of substantially all of its residential real estate operations and assets. In addition, although continuing cash flows may occur related to loan repurchases and repricings the Company is obligated to make in subsequent periods under standard industry representations and warranties for its residential real estate whole loan sales, the resolution of these contingencies do not constitute continuing cash flows or continuing involvement as defined in EITF 03-13. Therefore, in accordance with SFAS No. 144, the results of operations, financial position and cash flows of the Company's residential real estate operations are presented separately in the consolidated financial statements and notes as discontinued operations for all periods presented.

Assets and Liabilities of Discontinued Operations

The major classifications of assets and liabilities of the Company's discontinued operations are summarized as follows as of the dates indicated:

(Thousands of dollars)	June 30, 2007	December 31, 2006
Residential real estate loans held for sale - net	\$ 529,101	\$ 4,949,747
Servicing advances	263,100	92,175
Mortgage servicing rights - net	62,770	101,172
Residual interests in securitized loans at fair value	34,932	85,468
REO	20,013	12,790
Investment securities classified as available-for-sale	15,803	21,282
Loans receivable	10,367	8,568
Accrued interest receivable	9,105	18,572
Other assets	10,122	26,146
Total assets to be sold	\$ 955,313	\$ 5,315,920

Loan repurchase reserve	\$	214,638	\$	140,923
Premium repurchase reserve		436		6,878
Premium recapture reserve				1,564
Federal Home Loan Bank advances				1,060,000
Other liabilities		60,152		97,840
Total liabilities	\$	275,226	\$	1,307,205

Residential Real Estate Loans Held for Sale and Valuation Reserve: Residential real estate loans held for sale are aggregated prior to their sale and are carried at the lower of aggregate cost or estimated fair value less costs to sell. Estimated fair values are based upon current secondary market prices for loans with similar coupons, maturities and credit quality. The following tables detail the residential real estate loans held for sale included

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in discontinued operations and the valuation reserve to adjust the loans to estimated fair value less costs to sell as of the dates indicated:

Residential Real Estate Loans Held For Sale (Thousands of dollars)	June 30, 2007	December 31, 2006
Loan principal balance:		
First trust deeds	\$ 851,660	\$ 4,843,547
Second trust deeds	154,266	345,845
	1,005,926	5,189,392
Net deferred direct origination costs	5,013	38,940
	1,010,939	5,228,332
Valuation reserve	(481,838)	(278,585)
Loans held for sale net	\$ 529,101	\$ 4,949,747
Loans held for sale on non-accrual status	\$ 146,548	\$ 64,652

Valuation Reserve (Thousands of dollars)	Three Months Ended		Six Months Ended	
	2007	June 30, 2006	2007	June 30, 2006
Beginning balance	\$ 683,397	\$ 48,719	\$ 278,585	\$ 32,753
Provision	124,420	29,946	517,663	47,280
Discounted sales	(416,602)	(32,110)	(471,026)	(49,488)
Charge-offs	(5,080)	(3,172)	(12,952)	(4,870)
Transfer from repurchase reserve	95,703	31,050	169,568	48,758
Ending balance	\$ 481,838	\$ 74,433	\$ 481,838	\$ 74,433

Loan Repurchase Reserve: As the residential real estate loans held for sale are sold, the Company makes standard industry representations and warranties about the loans. The Company may have to subsequently repurchase certain loans due to defects that occurred in the origination of the loans. During the second quarters of 2007 and 2006, the Company repurchased a total of \$330.6 million and \$159.9 million in loans, respectively. During the first six months of 2007 and 2006, the Company repurchased a total of \$652.8 million and \$238.6 million in loans, respectively. The following table summarizes the activity in the repurchase reserve within discontinued operations for the periods

indicated.

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Beginning balance	\$ 190,209	\$ 23,337	\$ 140,923	\$ 14,556
Provision	125,852	79,750	256,589	110,295
Charge-offs for loan repricing	(5,720)	(14,451)	(13,306)	(18,507)
Transfer to valuation reserve	(95,703)	(31,050)	(169,568)	(48,758)
Ending balance	\$ 214,638	\$ 57,586	\$ 214,638	\$ 57,586

Premium Repurchase and Recapture Reserve: The Company also maintains a reserve for premium recapture that represents the estimate of probable refunds of premiums received on previously completed loan sales (either due to early loan prepayments or for certain loans repurchased from prior sales) that are expected to occur under the provisions of the various agreements entered into for the sale of its residential real estate loans held for sale. The following table summarizes the activity in the premium recapture reserve within discontinued operations for the periods indicated:

(Thousands of dollars)	Three Months Ended		Six Months Ended June 30,	
	2007	June 30, 2006	2007	2006
Beginning balance	\$ 2,255	\$ 2,937	\$ 8,442	\$ 4,259
Provision for premium recapture on repurchased loans	(8,596)	7,462	(8,542)	9,771
Provision for standard premium recapture	(340)	7,207	(568)	7,629
Refunds	7,117	(6,945)	1,104	(10,998)
Ending balance	\$ 436	\$ 10,661	\$ 436	\$ 10,661

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Mortgage Servicing Rights: The following table summarizes the activity in the Company's mortgage servicing rights asset within discontinued operations for the periods indicated:

(Thousands of dollars)	Three Months Ended		Six Months Ended June 30,	
	2007	June 30, 2006	2007	2006
Beginning balance	\$ 95,746	\$ 45,337	\$ 101,677	\$ 46,022
Additions (sales)	(5,072)	26,261	5,495	33,620
Amortization	(15,169)	(8,859)	(31,667)	(16,903)
Ending balance before valuation allowance	75,505	62,739	75,505	62,739
Valuation allowance:				
Beginning balance	(2,979)		(505)	
Provision for temporary impairment	(9,756)		(12,230)	
Ending balance	(12,735)		(12,735)	
Mortgage servicing rights net	\$ 62,770	\$ 62,739	\$ 62,770	\$ 62,739
Estimated fair value	\$ 82,133	\$ 68,329	\$ 82,133	\$ 68,329

The key economic assumptions used in subsequently measuring the fair value of the Company's MSR's as of the dates indicated are as follows:

	June 30, 2007	December 31, 2006
Weighted-average life (years)	1.5	1.4
Weighted-average annual prepayment speed	24.5%	38.8%
Weighted-average annual discount rate	19.7%	19.6%

Residual Interests in Securitized Loans: The following table summarizes the activity of the Company's retained residual interests within discontinued operations for the periods indicated:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Beginning balance at fair value	\$ 60,773	\$ 90,236	\$ 85,468	\$ 170,723
Additions (sales)		12,584		(64,636)
Interest accretion	7,999	15,950	14,225	32,759
Cash received	(24,034)	(16,882)	(53,394)	(31,592)
Change in unrealized losses	(4,848)	11,399	(6,409)	6,033
Other-than-temporary impairment	(4,958)	(5,752)	(4,958)	(5,752)
Ending balance at fair value	\$ 34,932	\$ 107,535	\$ 34,932	\$ 107,535

The following table summarizes delinquencies and credit losses for the loans underlying the Company's outstanding securitization transactions as of the dates indicated:

(Thousands of dollars)		June 30, 2007		December 31, 2006
Original principal amount of loans securitized	\$	17,536,329	\$	17,536,329
Current principal amount of loans securitized	\$	9,348,984	\$	10,938,440
Current delinquent principal amount (over 60 days)	\$	1,681,600	\$	1,142,794
Inception to date credit losses (net of recoveries)	\$	157,201	\$	53,241

Key economic assumptions used in subsequently measuring the fair value of the Company's residual interests as of the dates indicated are as follows:

	June 30, 2007	December 31, 2006
Weighted-average life (years)	2.0	2.5
Weighted-average annual prepayment speed	25.0%	25.0%
Weighted-average lifetime credit losses	5.5%	5.5%
Weighted-average annual discount rate	31.4%	24.0%

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(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Interest income	\$ 64,598	\$ 183,982	\$ 200,702	\$ 340,462
Non-interest income	(249,406)	18,507	(868,266)	17,620
Revenues from discontinued operations	\$ (184,808)	\$ 202,489	\$ (667,564)	\$ 358,082
Income (loss) on sale of discontinued operations	\$ (246,283)	\$ 8,374	\$ (876,975)	(6,802)
Interest income	64,598	183,982	200,702	340,462
Interest expense	(43,495)	(98,807)	(131,004)	(175,820)
Provision for loan loss	(2)	(1)	(15)	13
Loan servicing income	30,831	23,482	63,667	44,831
Mortgage servicing rights amortization and impairment provision	(24,986)	(8,859)	(47,097)	(16,903)
Impairment on residual assets	(10,331)	(5,752)	(10,331)	(5,752)
Other non-interest income	1,363	1,262	2,470	2,246
Compensation and related	(18,582)	(31,487)	(69,403)	(64,257)
Occupancy	(2,407)	(4,749)	(14,846)	(8,956)
Other non-interest expense	(6,925)	(13,937)	(55,922)	(26,369)
Income (loss) from discontinued operations	\$ (256,219)	\$ 53,508	\$ (938,754)	\$ 82,693
Income tax (expense) benefit	3,181	(21,265)	82,876	(33,115)
Income (loss) from discontinued operations, net of income taxes	\$ (253,038)	\$ 32,243	\$ (855,878)	\$ 49,578

The loss from discontinued operations, net of income taxes, was \$253.0 million for the second quarter of 2007, representing a \$3.29 diluted loss per share, compared to income from discontinued operations, net of income taxes, of \$32.2 million, or \$0.42 diluted income per share for the second quarter of 2006. During the first six months of 2007, the loss from discontinued operations, net of income taxes, was \$855.9 million, representing a \$11.10 diluted loss per share, compared to income from discontinued operations, net of income taxes, of \$49.6 million, or \$0.65 diluted income per share for the comparable period in 2006.

During the second quarter of 2007, the Company recorded a realized loss of \$246.3 million related to the sale of \$4.32 billion of residential real estate loans held for sale. During the six months ended June 30, 2007, the Company recognized a loss of \$877.0 million related to the sale of \$8.51 billion of residential real estate loans held for sale. Expense provisions related to the residential real estate loan valuation, repurchase and premium recapture reserves are included in these losses. In addition, during the first six months of 2007, the Company recognized a \$38.8 million adjustment to write down the carrying value of the residential real estate held for sale assets to their estimated fair value less costs to sell.

During the second quarters of 2007 and 2006, the Company recognized \$56.6 million and \$133.8 million, respectively, in interest income on the residential real estate loan portfolio. During the six months ended June 30, 2007 and 2006, the Company recognized \$186.5 million and \$273.5 million, respectively, in interest income on the residential real estate loan portfolio.

During the second quarter of 2007, the Company continued to service residential real estate loans, recognizing loan servicing income of \$30.8 million as compared to \$23.5 million during the second quarter of 2006. During the six months ended June 30, 2007 and 2006, the Company recognized \$63.7 million and \$44.8 million, respectively, in loan servicing income. The Company was servicing on a to maturity basis \$18.83 billion and \$18.12 billion in principal balance of loans as of June 30, 2007 and December 31, 2006, respectively.

The loss from discontinued operations for the six months ended June 30, 2007 includes a \$5.3 million charge for one time severance payments paid to employees of the residential real estate loan origination operations and related support staff. In addition, the Company recorded a \$10.7 million charge for lease termination costs related to the Company's residential real estate loan origination offices.

During the six months ended June 30, 2007, cash flows related to residential real estate loan originations and proceeds realized on the sale of such loans were \$3.89 billion and \$7.86 billion, respectively, and during the six

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months ended June 30, 2006, such cash flows were \$18.08 billion and \$17.15 billion, respectively. These amounts are included in cash flows from operating activities in the Company's consolidated statements of cash flows.

NOTE 5 COMMERCIAL REAL ESTATE LOANS HELD FOR SALE

As more fully described in Note 1, on July 2, 2007, FIL completed the sale of its commercial real estate lending business and related loan portfolio to iStar.

Commercial real estate loans held for sale were primarily variable rate and were secured primarily by first mortgages on various types of properties. The commercial real estate loans held for sale were primarily comprised of bridge and construction loans of relatively short duration (rarely more than five years in length of term and often shorter, such as two to three years). These loans were funded throughout the term as the construction progressed.

The following table further details the net commercial real estate loans that were classified as held for sale as of June 30, 2007 and held for investment as of December 31, 2006.

(Thousands of dollars)	June 30, 2007	December 31, 2006
Loans outstanding	\$ 6,905,677	\$ 6,749,316
Participations sold	(642,509)	(202,014)
Loans outstanding, net of participations sold	6,263,168	6,547,302
Unamortized deferred origination fees and costs	(45,470)	(59,804)
Loans outstanding	6,217,698	6,487,498
Carrying value adjustment/allowance for loan loss	(232,465)	(230,398)
Loans held for sale - net	\$ 5,985,233	\$ 6,257,100

Due to the reclassification of the commercial real estate loan portfolio from held for investment to held for sale in the first quarter of 2007, the Company eliminated the allowance for loan loss and adjusted the carrying value of the loans to their estimated fair value less costs to sell.

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

(Thousands of dollars)	June 30,	December 31,
------------------------	----------	--------------

	2007	2006
Non-accrual commercial real estate loans held for sale	\$ 946,662	\$ 1,110,965
Restructured commercial real estate loans on accrual basis	\$	\$

NOTE 6 REAL ESTATE OWNED

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

(Thousands of dollars)	June 30, 2007	December 31, 2006
Commercial real estate	\$ 65,897	\$ 299
Valuation reserve	(63)	
Real estate owned net	\$ 65,834	\$ 299

Table of Contents**NOTE 7 EXIT AND DISPOSAL COSTS**

As more fully described in Note 1, the Company completed the sale of its entire \$6.27 billion commercial real estate loan portfolio to *iStar* in July 2007, and received cash of \$1.89 billion and a 70% participation interest of \$4.21 billion in the loans sold. Due to the participation, cash flows from the component will not be eliminated from the Company's ongoing operations. Because the Company expects significant cash inflows will be received as a result of the continuation of activities between itself and the commercial real estate component, the sale does not result in the classification of the commercial real estate operation as discontinued, as defined by EITF No. 03-13. Based on management's decision to sell the commercial loan portfolio in the first quarter of 2007, the Company reclassified the commercial real estate loans from held for investment to held for sale.

In connection with the sale, approximately 131 employees in the commercial real estate loan origination operation transferred to *iStar*. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, the Company recorded employee severance charges for terminated employees that did not transfer to *iStar* in the amount of \$8,000 and \$6.1 million as part of compensation and related costs in the first and second quarters of 2007, respectively. In addition, in the first and second quarters of 2007, the Company incurred \$168,000 and \$1.1 million, respectively, in other charges related to the sale of the commercial real estate loan origination operation and related loan portfolio. These charges are included in other non-interest expense in the consolidated statements of operations.

NOTE 8 INCOME TAXES

The major components of income tax expense from continuing operations are summarized in the following table:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Federal:				
Current	\$ 3,601	\$ 13,870	\$ 11,090	\$ 11,238
Deferred	(9,288)	(2,782)	(7,536)	8,911
	(5,687)	11,088	3,554	20,149
State:				
Current	758	3,541	2,304	1,983
Deferred	(2,470)	(1,633)	(3,078)	475
	(1,712)	1,908	(774)	2,458
Total income tax expense (benefit)	\$ (7,399)	\$ 12,996	\$ 2,780	\$ 22,607

The Company recorded an income tax benefit relating to its discontinued operations of \$(82.9) million for 2007 of which \$(136.1) million was current and \$53.2 million was deferred. Included in the deferred tax expense for 2007 was

an addition to the deferred tax asset valuation allowance of \$290.3 million. In 2006, the Company recorded an income tax expense relating to its discontinued operations of \$33.1 million of which \$64.3 million was current and \$(31.2) million was deferred.

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

	June 30,	December 31,
(Thousands of dollars)	2007	2006
Deferred tax assets:		
Mark-to-market on loans held for sale	\$	\$ 7,398
Premium recapture and repurchase reserves	90,718	62,136
Allowance for loan losses	38,686	40,262
Compensation related items	56,277	29,150
Net operating loss carryforward	214,086	21,005
Other net	4,940	164
Total deferred tax assets	404,707	160,115
Deferred tax liabilities:		
Loan origination costs and fees	(3,375)	(16,902)
Mortgage servicing	(25,040)	(37,718)
State income and franchise taxes	(38,483)	(17,924)
Total deferred tax liabilities	(66,898)	(72,544)
Net deferred tax asset before valuation allowance	337,811	87,571
Valuation allowance	(325,305)	(34,995)
Net deferred tax asset after valuation allowance	\$ 12,504	\$ 52,576

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

In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets depends on the ability to recover previously paid taxes through loss carrybacks and the generation of future taxable income during the periods in which temporary differences become deductible. At June 30, 2007, it was the Company's opinion that it was likely that \$12.5 million of the deferred tax asset would be realized and a full valuation reserve was recorded for the remaining deferred tax asset. It is expected that the projected gain on the sale of the commercial lending business to iStar, as more fully described in Note 1, will provide the future taxable income needed to realize the \$12.5 million net deferred tax asset.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an approximate \$3.4 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The total amount of unrecognized tax benefits as of the date of adoption on January 1, 2007 was \$22.1 million, all of which would favorably affect the effective tax rate if recognized.

The Company records interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. At January 1, 2007, the Company had accrued \$1.8 million and \$500,000 for the potential payments of interest and penalties.

The Internal Revenue Service is currently examining the Company's 2004 and 2005 income tax returns. The California Franchise Tax Board has examined the Company's franchise tax returns through the 2004 tax year.

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The debt of Fremont General is detailed in the following table; none of the Fremont General debt is guaranteed by FIL:

		June 30,	December 31,
(Thousands of dollars)		2007	2006
Senior Notes due 2009, less discount (2007 \$491; 2006 \$635)	\$	166,039	\$ 165,895
Junior Subordinated Debentures		103,093	103,093
	\$	269,132	\$ 268,988

During the six months ended June 30, 2007, there were no repurchases of either Senior Notes or Junior Subordinated Debentures.

NOTE 10 DEPOSITS, FHLB ADVANCES, FEDERAL RESERVE AND WAREHOUSE LINES OF CREDIT FIL

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

As of June 30, 2007, the weighted-average interest rate for savings and money market deposit accounts was 4.23% and for certificates of deposit it was 5.29%. The weighted-average interest rate for all deposits at June 30, 2007 was 5.10%.

Certificates of deposit as of June 30, 2007 are detailed by maturity and rates as follows:

(Thousands of dollars)	Amount	Maturing by June 30,	Weighted Average Rate
	\$ 7,893,250	2008	5.28%
	77,016	2009	5.68%
	14,015	2010	5.05%
	4,132	2011	5.04%
	15,292	2012	5.19%
	\$ 8,003,705		5.29%

Of the \$8.00 billion in total certificates of deposit outstanding at June 30, 2007, \$1.28 billion were obtained through brokers.

Interest expense on deposits is summarized as follows:

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Savings and money market deposit accounts	\$ 18,239	\$ 14,398	\$ 37,959	\$ 28,298
Certificates of deposit	112,869	92,175	223,500	169,130
Penalties for early withdrawal	(530)	(188)	(1,198)	(358)
	\$ 130,578	\$ 106,385	\$ 260,261	\$ 197,070

Interest expense is charged back to both the commercial real estate operations as well as the residential real estate (discontinued) operations for the use of funds generated by the Company's corporate and retail banking operations.

Total interest payments on deposits were \$134.3 million and \$101.4 million, during the second quarters of 2007 and 2006, respectively, and \$252.1 million and \$190.3 million for the six months ended June 30, 2007 and 2006, respectively.

During the first six months of 2007, additional financing was available to FIL through advances from the FHLB. FIL's credit line with the FHLB had a maximum financing availability that was based on a percentage of FIL's regulatory assets, to which the actual borrowing capacity was subject to collateralization and certain collateral sublimits and eligibility limitations. In March 2007, following the issuance of the Order and the Company's exit from the residential real estate lending business, the FHLB limited FIL's borrowing capacity to existing outstanding debt of \$3.67 billion. By March 31, 2007, FIL had utilized \$2.30 billion in proceeds from loan sales and \$618.1 million in debt from a warehouse lending facility to reduce the outstanding FHLB debt.

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to \$800.0 million. As of June 30, 2007, outstanding FHLB debt was zero and all pledged collateral was released by the FHLB to FIL. FIL does not currently maintain pledged collateral with the FHLB.

In the first quarter of 2007, FIL pledged eligible commercial real estate loans to the Federal Reserve Bank of San Francisco under the Primary Credit program (the Program). There was no outstanding debt at any time during 2007 under the Program. In June 2007, in anticipation of the *iStar* Transaction, FIL removed all commercial real estate loans pledged as collateral under the Program. As of June 30, 2007, FIL did not maintain any pledged collateral with the Federal Reserve Bank. FIL does not currently maintain pledged collateral with the Federal Reserve Bank.

In the first quarter of 2007, in connection with the Company's exit from the residential real estate lending business, FIL mutually terminated two of four existing warehouse financing lines and elected to allow one financing facility to expire. As of March 31, 2007, outstanding debt on the remaining warehouse facility was \$618.0 million. On April 30, 2007 all outstanding debt on this facility was repaid. In June 2007, the remaining warehouse financing facility expired. As of June 30, 2007, FIL did not have any warehouse financing lines.

NOTE 11 OTHER ASSETS AND LIABILITIES

The following tables detail the composition of the Company's other assets and other liabilities as of the dates indicated:

	June 30,	December 31,
(Thousands of dollars)	2007	2006
OTHER ASSETS		
Federal and state(s) income taxes receivable	\$ 287,266	\$ 220,936
Assets held in SERP mutual funds	33,992	33,536
Other	13,602	14,460
Total other assets	\$ 334,860	\$ 268,932

	June 30,	December 31,
(Thousands of dollars)	2007	2006
OTHER LIABILITIES		
Deferred compensation obligation	\$ 42,390	\$ 52,926
Accounts payable	40,994	30,256
Accrued interest payable	37,517	29,884
Accrued incentive compensation	11,115	32,368
Restricted stock accrual	5,333	14,786
Accrued ESOP expense		15,664
Other	32,294	34,702
Total other liabilities	\$ 169,643	\$ 210,586

NOTE 12 SHARE-BASED PAYMENTS

Company stock award plans provide a long term compensation opportunity for officers and certain key employees of the Company. Stock options and awards of rights to purchase shares of the Company's common stock, generally in the form of restricted stock awards, may be granted under the 2006 Performance Incentive Plan (the 2006 Plan) that was approved by the Company's stockholders on May 18, 2006.

Stock Options

During the years 1989 to 1997, non-qualified stock options were granted at exercise prices equal to the fair value of the stock on the date of grant. Grantees vested at the rate of 25% per year beginning on the first anniversary of the grants that expire after ten years. The remaining 468,000 non-qualified option shares outstanding and exercisable as of December 31, 2006 expired in February 2007. There are no outstanding option shares as of June 30, 2007.

Table of Contents**Restricted Stock Awards**

Under SFAS No. 123(R), Share-Based Payment, the Company recognizes compensation expense related to its restricted stock awards based on the fair value of the shares awarded as of the grant date. Compensation expense for the restricted stock awards is recognized on a straight-line basis over the requisite service period (generally two to ten years). The compensation expense that has been charged against income for share-based compensation was \$3.2 million for both the three months ended June 30, 2007 and 2006 and \$7.0 million and \$6.5 million for the six months ended June 30, 2007 and 2006, respectively.

A summary of the status of the Company's nonvested restricted stock awards as of June 30, 2007 and changes during the six month period then ended is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2006	3,091,640	\$ 16.50
Granted	20,000	7.40
Vested	(849,010)	18.23
Forfeited	(388,946)	15.11
Nonvested at June 30, 2007	1,873,684	\$ 15.89

The fair value of nonvested restricted stock awards is determined based on the closing trade price of the Company's shares on the grant date. As of June 30, 2007, there was \$22.3 million of total unrecognized compensation cost related to nonvested restricted stock awards.

NOTE 13 DEFERRED COMPENSATION

The Company periodically contributes cash to an employee benefits trust (GSOP) in order to pre-fund contributions to various employee benefit plans (e.g., 401(K) match, Employee Stock Ownership Plan contribution, etc.).

The Company also maintains a Supplemental Executive Retirement Plan (SERP) and Excess Benefit Plan (EBP); both of which are deferred compensation plans designed to provide certain employees the ability to receive benefits that would be otherwise lost under the Company's qualified retirement plans due to statutory or other limits on salary deferral and matching contributions.

The following table details the composition of the Company's deferred compensation balance as of the dates indicated:

	June 30, 2007	December 31, 2006
(Thousands of dollars)		
SERP and EBP	\$ 9,158	\$ 18,209
GSOP	3,023	2,485

Total deferred compensation	\$	12,181	\$	20,694
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NOTE 14 INDUSTRIAL BANK REGULATORY CAPITAL

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

The terms of the Order require FIL to submit to the FDIC a capital plan that includes a Tier-1 capital ratio of not less than 14%. FIL's actual regulatory amounts and ratios and the related standard regulatory minimum

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amounts and ratios required to qualify as well-capitalized are detailed in the following tables as of the dates indicated:

					June 30, 2007			
					Actual		Minimum Required	
(Thousands of dollars, except percents)		Amount	Ratio		Amount	Ratio		
Tier-1 Leverage Capital	\$	536,174	4.53%	\$	591,723	5.00%		
Risk-Based Capital:								
Tier-1		536,174	5.19%		1,445,727	14.00%		
Total		536,345	5.19%		1,032,662	10.00%		

					December 31, 2006			
					Actual		Minimum Required	
(Thousands of dollars, except percents)		Amount	Ratio		Amount	Ratio		
Tier-1 Leverage Capital	\$	1,326,563	10.09%	\$	657,061	5.00%		
Risk-Based Capital:								
Tier-1		1,326,563	8.77%		907,639*	6.00%*		
Total		1,392,814	9.21%		1,512,732	10.00%		

* Based on the terms of the order, as of December 31, 2006 the minimum required amount and ratio would have been \$2,117,824 and 14%, respectively.

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

(Thousands of dollars)	June 30, 2007	December 31, 2006
Common stockholder's equity at FIL	\$ 536,167	\$ 1,326,557
Less: Disallowed portion of deferred tax assets and mortgage servicing rights		
Net unrealized losses on available-for-sale securities	7	6
 Total Tier-1 Capital	 536,174	 1,326,563
Add: Allowable portion of the allowance for loan losses	171	66,251
 Total Risk-Based Capital (Tier-1 and Tier-2)	 \$ 536,345	 \$ 1,392,814

NOTE 15 COMMITMENTS AND CONTINGENCIES

The Company retains the right in its securitization transactions to call the securities when the outstanding balance of loans in the securitization trust declines to a specific level, typically 10% of the original balance.

Legal Actions:

The Company is a defendant in a number of legal actions or regulatory proceedings arising in the ordinary course of business, from the discontinuance of the insurance operations and from regulatory examinations conducted by the FDIC and the DFI.

Enron Corp., et al v. J.P. Morgan Securities, et al:

In November 2003, the Trustee for Enron Corporation filed voidable preference and fraudulent conveyance actions in the United States District Court for the Southern District of New York, Case No. 03-92677, seeking return of money from the Company for the redemption of Enron commercial paper prior to maturity and during the preference period. The initial Complaint and First Amended Complaint alleged Enron redeemed \$5 million of its commercial paper from the Company. On February 14, 2007, Enron filed a Second Amended Complaint which revised the claim against the Company from \$5 million to \$25 million. This increase represents the \$20 million Enron allegedly redeemed from the Company's former workers compensation insurance companies, now in liquidation. The Company does not believe there is any legal authority for a voidable preference or fraudulent conveyance against it for the alleged redemption of securities held by its subsidiaries. No trial date has been set. The case is currently in the discovery phase. The Company cannot predict the outcome and intends to vigorously defend against it.

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The Bank of New York v. Fremont General Corporation:

In December 2003, The Bank of New York filed a complaint against the Company in the United States District Court for the Central District of California, Los Angeles Division, Case No. 03-9238, seeking return of approximately \$14 million transferred from a custodial account with The Bank of New York when those sums were maintained as security for the Superintendent of the New York State Department of Insurance. The Bank of New York seeks return of those sums under a variety of theories. Trial has been completed in this matter resulting in a complete judgment for the Company. The Bank of New York appealed to the Ninth Circuit. Oral argument was heard on July 9, 2007. A decision by the Ninth Circuit is expected in the near future.

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

On June 2, 2004, the State of California Insurance Commissioner (the Commissioner), as statutory liquidator of Fremont Indemnity Company (Fremont Indemnity), filed suit in Los Angeles Superior Court against the Company alleging it improperly utilized certain net operating loss deductions (NOLs) allegedly belonging to Fremont Indemnity (the Fremont Indemnity Case). This complaint involves issues that were considered 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 the Company 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 dismissed the only remaining cause of action in the lawsuit originally brought by the Commissioner on behalf of Fremont Indemnity against Fremont General, first reported on June 17, 2004.

On February 28, 2007, the Court of Appeal of the State of California reversed the trial court's dismissal and sent the case back to the trial court for further proceedings. The Company continues to believe that this lawsuit is without merit and intends to vigorously defend against it.

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,

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the entire complaint. This ruling does not address or necessarily have legal effect on the related Fremont Indemnity case.

On February 28, 2007, the Court of Appeal of the State of California reversed the trial court's dismissal and sent the case back to the trial for further proceedings. The Company continues to believe that this lawsuit is without merit and intends to vigorously defend against it.

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 the Company 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, 2005, 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, Fremont General'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.

On January 8, 2007, The Court heard oral argument on the Company's Motion for Summary Judgment. On January 11, 2007, the Court granted the Company's Motion thereby dismissing the case. On February 5, 2007, Gerling filed its Notice of Appeal. Initial briefs have been filed. A hearing date has not yet been set.

Insurance Commissioner v. Rampino, et al:

On or about October 12, 2006, the California Insurance Commissioner, as Liquidator on behalf of Fremont Indemnity, filed a First Amended Complaint against certain former directors and officers of Fremont Indemnity for Breach of Fiduciary Duty. The Complaint alleges the defendant's breached their fiduciary duties by orchestrating and allowing Fremont Indemnity to engage in an inappropriate underwriting scheme that caused injury to Fremont Indemnity's reinsurers which in turn injured Fremont Indemnity by settlements it made with those reinsurers. The allegations in this complaint are substantially the same as those alleged by Gerling Global in its lawsuit. Although neither the Company nor any of its affiliates are defendants in this lawsuit, it is indemnifying and defending these directors and officers pursuant to the indemnification clause in Fremont General's bylaws. The case is currently in the discovery phase. Trial is currently scheduled to commence on April 14, 2008. The Company believes the lawsuit is without merit and intends to vigorously defend this matter.

Order to Cease & Desist:

As more fully described above, on March 7, 2007, Fremont General, FIL and FGCC consented to the Order issued by the FDIC without admitting to the allegations contained in the Order. The Order requires, among other things, that FIL make a variety of changes in its sub-prime residential loan origination business and also calls for certain changes in its commercial real estate lending business. In addition, the Order requires that FIL adopts a Capital Adequacy Plan to maintain adequate Tier 1 capital in relation to the risk profile of the Company. Further, the Order mandates various specific management requirements, including having and

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retaining qualified management acceptable to the FDIC and the DFI, and provides for enhanced regulatory oversight over FIL's operations.

The Company cannot predict the cost of compliance with the Order or the impact of the Order upon the Company's business, financial condition or results of operations.

ERISA Complaints:

In April through June of 2007, six complaints seeking class certification were filed in the United States District Court for the Central District of California against the Company and various officers, directors and employees by participants in the Company's Investment Incentive Plan (401(k) and Employee Stock Ownership Plan (collectively the Plans) alleging violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA) in connection with Company stock held by the Plans. The six complaints have been consolidated in a single proceeding. This litigation is still in its early stages. No trial date has been set. The Company believes the lawsuit is without merit and intends to vigorously defend this matter.

Securities Complaints:

In September 2007, three separate complaints seeking class certification were filed in the United States District Court for the Central District of California against the Company and various officers and directors alleging violations of federal securities laws in connection with published statements by the Company regarding its loan portfolio and loans held for resale during the period from May 9, 2006 through February 27, 2007. Management expects these lawsuits will be consolidated into a single proceeding. This litigation is still in its early stages. No trial date has been set. The Company believes these lawsuits are without merit and intends to vigorously defend these matters.

NAACP Litigation:

On July 11, 2007, the National Association for the Advancement of Colored People filed a lawsuit seeking class certification in United States District Court, Central District of California, against FIL and several other large home mortgage loan originators, alleging discriminatory lending practices. The lawsuit seeks injunctive relief and attorney fees, but not monetary damages, to enjoin defendants from the alleged discriminatory practices and to modify their conduct to comport with the law. The lawsuit has not yet been served on FIL. The Company believes the lawsuit is without merit with respect to FIL and intends to defend against it vigorously should FIL be served.

Massachusetts Attorney General Action:

In October 2007, the Office of the Attorney General of the Commonwealth of Massachusetts filed a lawsuit in Massachusetts Superior Court in Suffolk County on behalf of borrowers in Massachusetts, alleging that Fremont General and FIL engaged in unfair or deceptive practices in connection with the origination and servicing of residential mortgage loans. The complaint seeks injunctive relief, equitable relief for Massachusetts borrowers and civil penalties. The case is in its very early stages and the Company cannot predict the outcome or the effect it will have on its financial condition. However, the Company disagrees with the allegations in the lawsuit and intends to vigorously defend against it.

NOTE 16 OPERATIONS BY REPORTABLE SEGMENT

As more fully described in Note 1, in the first quarter of 2007, the Company decided to exit the residential real estate business. Therefore, the results of operations of that business are now reported as discontinued operations and the Company only has a single reportable segment as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131).

Although the Company sold its commercial real estate lending business and entire \$6.27 billion loan portfolio to iStar in July 2007 and received cash of \$1.89 billion and a 70% participation interest of \$4.21 billion in the loans sold, as more fully described in Note 7; this continuing interest in the commercial real estate operations results in significant

continuing cash flows between the Company and the commercial component. Therefore, the commercial real estate business does not meet the criteria of a discontinued operation and continues to be a reportable segment as defined by SFAS No. 131.

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Through the first six months of 2007, the commercial real estate segment originated commercial real estate loans, which were primarily bridge and construction facilities, on a nationwide basis. Beginning in the first quarter of 2007, the Company reclassified these loans from held for investment to loans held for sale. The loans generated net interest income on the difference between the rates charged on the loans and the cost of borrowed funds.

Management measures and evaluates the commercial real estate segment based on net interest income and pre-tax operating results. The results of operations include certain allocated corporate expenses charged back to the commercial segment. In addition, interest expense is charged back to both the commercial segment as well as the (residential real estate) discontinued operations for the use of funds generated by the Company's corporate and retail banking operations. Interest expense is allocated to the commercial segment and discontinued operations using treasury rates matched to the terms of the respective loans.

Certain expenses that are centrally managed at the corporate level such as provision for income taxes and other general corporate expenses are excluded from the measure of segment profitability reviewed by management. The Company has included these general corporate expenses along with the results of the Company's retail banking operation, which does not meet the definition of a reportable segment, in the Corporate and Retail Banking category.

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Intersegment eliminations shown in the following tables relate to the credit allocated to the retail banking operations for operating funds provided to the commercial segment.

Historical periods have been restated to conform to this presentation.

	Commercial	Corporate and	Intersegment	Total
(Thousands of dollars)	Real Estate	Retail Banking	Eliminations	Consolidated
Three months ended June 30, 2007				
Total revenues	\$ 142,588	\$ 107,644	\$ (78,487)	\$ 171,745
Net interest income	\$ 63,183	\$ 4,669	\$	\$ 67,852
Provision for loan losses	39			39
Other non-interest income	918	1,305		2,223
Compensation	(12,802)	(39,953)		(52,755)
Occupancy	(914)	(3,165)		(4,079)
Other non-interest expense	(2,342)	(30,482)		(32,824)
Allocations	(1,787)	1,787		
Income (loss) before income taxes	46,295	(65,839)		(19,544)
Income tax benefit				7,399
Income (loss) from continuing operations	46,295	(65,839)		(12,145)
Loss from discontinued operations, net of income taxes				(253,038)
Net income (loss)	\$ 46,295	\$ (65,839)	\$	\$ (265,183)
Assets continuing operations	\$ 6,095,239	\$ 3,628,492	\$ (1,958)	\$ 9,721,773
Assets discontinued operations				955,313
Total consolidated assets	\$ 6,095,239	\$ 3,628,492	\$ (1,958)	\$ 10,677,086

	Commercial	Corporate and	Intersegment	Total
(Thousands of dollars)	Real Estate	Retail Banking	Eliminations	Consolidated
Three months ended June 30, 2006				
Total revenues	\$ 130,743	\$ 68,365	\$ (61,400)	\$ 137,708
Net interest income	\$ 65,126	\$ 15,062	\$	\$ 80,188
Provision for loan losses	(11,706)			(11,706)
Other non-interest income	4,217	(134)		4,083

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Compensation	(6,868)	(18,893)	(25,761)
Occupancy	(748)	(2,678)	(3,426)
Other non-interest expense	4,948	(15,649)	(10,701)
Allocations	(1,282)	1,282	
Income (loss) before income taxes	53,687	(21,010)	32,677
Income tax expense			(12,996)
Income (loss) from continuing operations	53,687	(21,010)	19,681
Income from discontinued operations, net of income taxes			32,243
Net income (loss)	\$ 53,687	\$ (21,010)	\$ 51,924
Assets continuing operations	\$ 5,559,496	\$ 991,627	\$ 6,551,123
Assets discontinued operations			6,365,955
Total consolidated assets	\$ 5,559,496	\$ 991,627	\$ 12,917,078

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(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Six months ended June 30, 2007				
Total revenues	\$ 291,218	\$ 201,038	\$ (158,832)	\$ 333,424
Net interest income	\$ 132,412	\$ 10,211		\$ 142,623
Provision for loan losses	(182)			(182)
Other non-interest income	(26)	1,482		1,456
Compensation	(19,453)	(55,004)		(74,457)
Occupancy	(1,837)	(8,048)		(9,885)
Other non-interest expense	256	(56,947)		(56,691)
Allocations	(3,411)	3,411		
Income (loss) before income taxes	107,759	(104,895)		2,864
Income tax expense				(2,780)
Income (loss) from continuing operations	107,759	(104,895)		84
Loss from discontinued operations, net of income taxes				(855,878)
Net income (loss)	\$ 107,759	\$ (104,895)		\$ (855,794)
Assets continuing operations	\$ 6,095,239	\$ 3,628,492	\$ (1,958)	9,721,773
Assets discontinued operations				955,313
Total consolidated assets	\$ 6,095,239	\$ 3,628,492	\$ (1,958)	\$ 10,677,086

(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Six months ended June 30, 2006				
Total revenues	\$ 241,800	\$ 126,522	\$ (112,003)	\$ 256,319
Net interest income	\$ 124,064	\$ 30,648		\$ 154,712
Provision for loan losses	(15,597)	(4)		(15,601)
Other non-interest income	5,740	564		6,304
Compensation	(13,494)	(38,907)		(52,401)
Occupancy	(1,457)	(5,392)		(6,849)
Other non-interest expense	544	(30,069)		(29,525)

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Allocations	(2,494)	2,494	
Income (loss) before income taxes	97,306	(40,666)	56,640
Income tax expense			(22,607)
Income (loss) from continuing operations	97,306	(40,666)	34,033
Income from discontinued operations, net of income taxes			49,578
Net income (loss)	\$ 97,306	\$ (40,666)	\$ 83,611
Assets continuing operations	\$ 5,559,496	\$ 991,627	\$ 6,551,123
Assets discontinued operations			6,365,955
Total consolidated assets	\$ 5,559,496	\$ 991,627	\$ 12,917,078

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Thousands of shares and dollars, except per share data)	2007	2006	2007	2006
Income (loss) from continuing operations (numerator for basic and diluted earnings per share)	\$ (12,145)	\$ 19,681	\$ 84	\$ 34,033
Weighted-average shares (denominator for basic earnings per share)	76,866	74,517	75,998	74,025
Effect of dilutive securities using the treasury stock method for restricted stock and stock options:				
Employee benefit plans		1,245	1,100	1,195
Restricted stock		440		426
Stock options		77		88
Dilutive potential common shares		1,762	1,100	1,709
Adjusted weighted-average shares (denominator for diluted earnings per share)	76,866	76,279	77,098	75,734
Potentially dilutive shares related to employee benefit plans not included above since they are antidilutive	1,031			
Basic earnings per share from continuing operations	\$ (0.16)	\$ 0.26	\$ 0.00	\$ 0.46
Diluted earnings per share from continuing operations	\$ (0.16)	\$ 0.26	\$ 0.00	\$ 0.45

For additional disclosures regarding stock options and restricted stock see Note 12.

NOTE 18 SUBSEQUENT EVENTS

As more fully described in Notes 1 and 7 the Company completed the sale of its commercial real estate loan portfolio to iStar in July 2007, and received cash and a 70% participation interest in the loans sold.

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*Item 2. 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 or we or our a holding company which during the six months ended June 30, 2007 was engaged in lending operations through its indirectly wholly-owned California industrial bank subsidiary, Fremont Investment & Loan (FIL). Fremont General is not a bank holding company as defined for regulatory purposes.

As discussed in more detail in Note 1 of Notes to Consolidated Financial Statements, the Company has withdrawn from the residential real estate business and has sold its commercial real estate lending business and outstanding portfolio, as well as entered into an agreement for an investment by an investor group led by Gerald J. Ford. In addition, on March 7, 2007, Fremont General, FIL and Fremont General Credit Corporation (FGCC) an intermediate holding company wholly owned by Fremont General, consented to a Cease and Desist Order (the Order) issued by the Federal Deposit Insurance Corporation (FDIC), without admitting to the allegations contained in the Order. The following discussion and analysis of the financial conditions and results of operations of the Company is qualified in its entirety by reference to such events and discusses the Company's operations as they existed during the six months ended June 30, 2007.

FIL's commercial real estate lending operation included nine regional offices and, as of June 30, 2007, had loans outstanding in 30 states. FIL funded its lending operations primarily through deposit accounts sourced in California that are insured up to the maximum legal limit by the FDIC and, to a lesser extent, advances from the Federal Home Loan Bank (FHLB) of San Francisco. FIL is regulated by the FDIC and the Department of Financial Institutions of the State of California (DFI). FIL raises its retail deposits in California (predominately Southern California) through a network of 22 branches and a centralized call center.

During the six months ended June 30, 2007, FIL's commercial real estate lending operation provided first mortgage financing on various types of commercial properties. The loans that FIL originated were substantially all held for investment, with some loans participated out to limit credit exposures. Loans are originated through broker and borrower relationships and the borrowers were typically mid-size developers and owners seeking a loan structure that provided limited recourse and were 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 was focused on the value and quality of the collateral and the quality and experience of the parties with whom it did business. The size of loan commitments originated generally ranged from \$20 million to \$100 million, with some loans for larger amounts.

The Company's business is influenced by the overall condition of the economy, in particular the interest rate environment, and various market conditions. As a result, the Company is subject to experiencing cyclicality in volume, gain (or loss) on the sale of loans, net interest income, loan losses and earnings. During the six months ended June 30, 2007, the Company's commercial real estate operation generated income as follows.

Commercial real estate loans, which are classified as held for sale, generated net interest income on the difference between the rates charged on the loans and the cost of borrowed funds. The majority of commercial real estate loans originated were adjustable interest rate loans based upon either one, three and six-month LIBOR and an applicable margin. Previously, an allowance for loan losses was maintained through provisions (which were either an expense or a credit to income) that were recognized in the consolidated statements of operations. In connection with the reclassification of the commercial real estate loans from held for investment to held for sale, the Company established a valuation account to reduce the carrying value of the loans to their fair value less costs to sell.

The principal market risks the Company faces are interest rate risk, liquidity risk and credit 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 sell its loans held for sale. Liquidity risk also entails the risk of changes in secondary market conditions, which can negatively impact the

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pricing realized by the Company on the loans it sells. Credit risk is the Company's potential risk of loss due to borrower default which is impacted not only by specific borrower issues but by macro economic factors such as the supply and demand of housing.

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto presented under Item 1, and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Company has identified three accounting policies as being critical because they require more significant judgment and estimates about matters that may differ from the estimates determined under different assumptions or conditions. These critical accounting policies relate to the gain or loss on whole loan sales of residential real estate loans (which is included as part of discontinued operations beginning in the first quarter of 2007), income taxes and discontinued operations. The first two critical accounting policies and estimates are discussed in Management's Discussion and Analysis in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

The third critical accounting policy relates to the Company's discontinued operations. As more fully described in Note 1 of Notes to Consolidated Financial Statements, in March 2007, the Company decided to exit the residential real estate business and to sell substantially all of the assets related to such business. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company has classified the residential real estate operations as discontinued operations as the cash flow of the business has been eliminated from our ongoing operations and we will no longer have any significant continuing involvement in the business. Therefore, the results of operations, financial position and cash flows of the Company's residential real estate operations are presented separately in the consolidated financial statements and notes as discontinued operations for all periods presented.

When an operation meets the criteria for held for sale accounting as defined in SFAS No. 144, the operation is evaluated to determine whether the carrying value exceeds its fair value less costs to sell. Any loss resulting from the carrying value exceeding the fair value less costs to sell is recorded in the statement of operations in the period the operation meets the criteria for held for sale accounting. Management judgment is required to both assess the criteria required for held for sale accounting as well as to estimate fair value. Changes in the operation could cause it to no longer qualify for held for sale accounting and changes in fair value could result in an increase or decrease to previously recognized losses. For additional information concerning the Company's discontinued operations see Note 4 of Notes to Consolidated Financial Statements. For additional information regarding the Company's commercial real estate loan portfolio and its subsequent sale in July 2007, see Notes 5 and 7 of Notes to Consolidated Financial Statements.

Two changes to the Company's critical accounting policies since December 31, 2006 are the Company no longer considers derivatives and the allowance for loan losses to be critical accounting policies. Due to the Company's exit from the residential real estate business, the Company utilized fewer derivative instruments beginning in the first

quarter of 2007. As of the end of the second quarter of 2007, the Company no longer had any derivative instruments. In addition, due to the Company's decision to sell the commercial real estate loan portfolio in the first quarter of 2007, the Company reclassified the portfolio from held for investment to held for sale. The Company eliminated the allowance for loan losses and adjusted the carrying value of the loans to their estimated fair value less costs to sell. On July 2, 2007 the Company completed the sale of its

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\$6.27 billion commercial real estate portfolio to iStar and removed from its balance sheet the total amount of its commercial real estate loans held for sale.

EARNINGS PERFORMANCE

As more fully described in Note 1 of Notes to Consolidated Financial Statements, the Company decided to exit the residential real estate business in March 2007 and the results of that business are now reported as discontinued operations. Therefore, during the six months ended June 30, 2007 and 2006 the Company's reported earnings from continuing operations are limited to the results from its commercial real estate business and retail banking and corporate operations.

The Company reported a loss from continuing operations before income taxes of \$19.5 million for the second quarter of 2007 as compared to income of \$32.7 million for the second quarter of 2006. During the six months ended June 30, 2007 the Company reported income from continuing operations before income taxes of \$2.9 million as compared to \$56.6 million during the comparable period in 2006. The components of the Company's results of operations are more fully described below.

Due to the Company's exit from its residential real estate lending operations and sale of its commercial real estate lending business and related loan portfolio as more fully described in Note 1 of Notes to Consolidated Financial Statements, the Company will have a reduced revenue stream for at least the remainder of fiscal year 2007, relying on interest income as its primary source of revenue. The Company expects that it will experience a lower yield on its interest earning assets due to a higher concentration in short term investment grade securities. As a result, the Company expects that it will incur a net loss from continuing operations for at least the remainder of fiscal year 2007.

Net Interest Income

The Company, in connection with its near-term strategic goal of attempting to reduce its risk profile and achieve a steady state of operations, began the process of divesting the sub-prime mortgage loan portfolio and business and its commercial real estate loan portfolio and business during 2007. This reorientation in the operations will necessarily have the effect of lowering both returns and risk profiles simultaneously with regard to the Company's balance sheet mix. The shift in the mix and risk profile of the Company's investment portfolio is deemed to be a necessary step in the Company's transition prior to setting up more permanent, sustainable and diversified asset generating businesses. There can be no assurances that the Company will be able to develop or acquire any such businesses. The following is an outline of the Company's current activities and their impact on net interest income.

Residential real estate loans

Although the whole loan sales of residential real estate loans during the first six months of 2007 reduced the Company's exposure to credit risk, they also reduced the net interest margin compared to historical results and balance sheet composition.

The Company, between December 31, 2006 and June 30, 2007, reduced its residential real estate loans held for sale by \$4.42 billion to \$529.1 million in connection with its previously announced loan sales. While the Company continues to market its remaining loans held for sale, it does so on a discounted or "scratch and dent" basis due to the nature and marketability of the remaining loans in terms of their delinquency status, aging, valuation profile, and repurchase composition. Yields will be lower because proceeds from loan sales have been reinvested in short term investment grade instruments. As an example, the Company earned \$564.0 million in interest income on \$6.84 billion in residential real estate loans held for sale, or 8.25% during 2006. Reinvestment of these balances is currently being executed at rates that approximate the one month LIBOR index (current yields range from 4.6% to 5.25%) as a result of the lower risk nature of the Company's short term investments.

Commercial real estate loans

The sale of the Company's \$6.27 billion commercial real estate loan portfolio in return for a \$4.21 billion lower yielding LIBOR-based participation interest and \$1.89 billion in cash in July 2007 has enabled the Company to reinvest that money into short term investment grade securities designed to help give the Company maximum flexibility.

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The Company's short term investment portfolio strategy is designed to help preserve liquidity in an effort to provide maximum balance sheet flexibility during the Company's transition period. The Company will attempt to maintain a low credit risk profile and selectively purchase short lockout agency callable notes of short duration or floating rate agency collateralized mortgage obligations to enhance yield relative to other short term investments.

Deposits

The Company's funding needs are a result of the sale of its commercial real estate loans and the substantial reduction of its residential real estate loans as compared to December 31, 2006. Retail deposits were \$8.37 billion at December 31, 2006 with a weighted average interest rate of 5.05% compared to \$7.33 billion at September 30, 2007 with an average interest rate of 4.96%.

Broker Deposits

Broker deposits are continuing to run off based on original maturity. The Company does not expect to replenish broker deposits because the Company is required to seek prior approval from the FDIC to raise additional broker deposits under the Order. At December 31, 2006 the Company's outstanding broker deposit liability was \$1.62 billion. Assuming no additional broker deposits, this run off will result in less than \$300 million in these deposits outstanding as of December 31, 2007.

Net Interest Income Table

The Company recorded net interest income for the second quarter and six months ended June 30, 2007 of \$67.9 million and \$142.6 million, respectively, and \$80.2 million and \$154.7 million, respectively, for the comparable periods in 2006.

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 second quarter and first six months of 2007 and 2006:

	Three Months Ended June 30,					
	2007			2006		
(thousands of dollars, except percents)	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets ⁽¹⁾ :						
Commercial real estate loans	\$ 6,226,741	\$ 141,670	9.13%	\$ 5,560,025	\$ 126,526	9.13%
Cash equivalents and investment securities	1,899,359	27,852	5.88%	651,366	7,099	4.37%

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Total interest-earning assets	\$ 8,126,100	\$ 169,522	8.37%	\$ 6,211,391	\$ 133,625	8.63%
Interest-bearing liabilities:						
Time deposits	\$ 8,577,053	\$ 112,339	5.25%	\$ 8,081,385	\$ 92,027	4.57%
Savings deposits	1,682,574	18,239	4.35%	1,521,289	14,358	3.79%
Senior Notes due 2009	166,530	3,350	8.05%	171,994	3,464	8.06%
WARRANTS						
Senior Subordinated Debentures	103,093	2,319	9.00%	103,093	2,319	9.00%
Interest-bearing liabilities allocated to continued operations	(2,406,174)	(34,577)	5.76%	(4,133,719)	(58,731)	5.70%
Total interest-bearing liabilities	\$ 8,123,076	\$ 101,670	5.02%	\$ 5,744,042	\$ 53,437	3.73%
Net interest income		\$ 67,852			\$ 80,188	
Percent of average interest-earning assets:						
Interest income			8.37%			8.63%
Interest expense			5.02%			3.45%
Net interest margin			3.35%			5.18%

(1) Average loan balances include non-accrual loan balances.

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(Thousands of dollars)	Three Months Ended June 30, 2007 Compared to 2006		
	Change Due To		
	Volume ⁽¹⁾	Rate	Total
Cash equivalent and investment securities	\$ 18,300	\$ 2,453	\$ 20,753
Commercial real estate loans	15,169	(25)	15,144
Total increase in interest income	33,469	2,428	35,897
Time deposits	(6,492)	(13,820)	(20,312)
Savings deposits	(1,748)	(2,133)	(3,881)
Senior Notes due 2009	114		114
Junior Subordinated Debentures			
Interest-bearing liabilities allocated to discontinued operations	(24,825)	671	(24,154)
Total (increase) in interest expense	(32,951)	(15,282)	(48,233)
Increase / (decrease) in net interest income	\$ 518	\$ (12,854)	\$ (12,336)

⁽¹⁾ Changes in rate/volume are allocated to change in volume.

(Thousands of dollars, except percents)	Six Months Ended June 30,					
	2007			2006		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost

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Interest-earning assets⁽¹⁾:

Commercial real estate loans	\$ 6,467,066	\$ 291,244	9.08%	\$ 5,297,643	\$ 236,060	8.99%
Other equivalents and investment securities	1,431,780	40,724	5.74%	581,601	13,955	4.84%
Total interest-earning assets	\$ 7,898,846	\$ 331,968	8.48%	\$ 5,879,244	\$ 250,015	8.58%

Interest-bearing liabilities:

Time deposits	\$ 8,568,877	\$ 222,302	5.23%	\$ 7,753,930	\$ 168,836	4.39%
Time deposits	1,724,086	37,959	4.44%	1,550,445	28,234	3.67%
Commercial Notes due 2009	166,530	6,700	8.05%	174,076	7,010	8.05%
Commercial Paper						
Commercial Subordinated Debentures	103,093	4,639	9.00%	103,093	4,639	9.00%
Interest-bearing liabilities allocated to discontinued operations	(2,845,477)	(82,255)	5.83%	(4,200,148)	(113,416)	5.45%
Total interest-bearing liabilities	\$ 7,717,109	\$ 189,345	4.95%	\$ 5,381,396	\$ 95,303	3.57%
Net interest income		\$ 142,623			\$ 154,712	

Percent of average interest-earning assets:

Net interest income			8.48%			8.58%
Interest expense			4.83%			3.27%
Net interest margin			3.65%			5.31%

(1) Average loan balances include non-accrual loan balances.

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(Thousands of dollars)	Six Months Ended June 30, 2007 Compared to 2006		
	Volume ⁽¹⁾	Rate	Change Due To Total
Cash equivalent and investment securities	\$ 24,182	\$ 2,587	\$ 26,769
Commercial real estate loans	52,665	2,519	55,184
Total increase in interest income	76,847	5,106	81,953
Time deposits	(21,142)	(32,324)	(53,466)
Savings deposits	(3,823)	(5,902)	(9,725)
Senior Notes due 2009	310		310
Junior Subordinated Debentures			
Interest-bearing liabilities allocated to discontinued operations	(39,160)	7,999	(31,161)
Total (increase) in interest expense	(63,815)	(30,227)	(94,042)
Increase / (decrease) in net interest income	\$ 13,032	\$ (25,121)	\$ (12,089)

⁽¹⁾ Changes in rate/volume are allocated to change in volume.

Non-Interest Expense

Total non-interest expense increased to \$89.7 million during the second quarter of 2007 from \$39.9 million for the second quarter of 2006. For the six months ended June 30, 2007, total non-interest expense increased to \$141.0 million from \$88.8 million for the comparable period in 2006.

The primary drivers of the increase in other non-interest expense were the increases in compensation and all other non-interest expenses during the second quarter of 2007.

Compensation expense increased to \$52.8 million in the second quarter of 2007 from \$25.8 million in the second quarter of 2006. The increase was attributable in part to one-time termination costs related to both residential and

commercial real estate loan origination and related support staff of \$9.9 million. In addition, expenses related to the Company's SERP and EBP plans and other non qualified retirement plans were \$17.1 million higher in the second quarter of 2007 versus 2006 due primarily to changes in the Company's stock price during the respective periods.

All other non-interest expense increased to \$32.8 million in the second quarter of 2007 from \$10.7 million in the second quarter of 2006. As indicated in the table below, this increase in 2007 was primarily due to higher legal and professional fees, net expenses incurred on REO (versus a net gain in 2006) and an increase in all other costs that included \$16.7 million in additional expenses related to FDIC examinations. Legal and professional fees increased during the period in part due to costs related to compliance with the Order, the sale of the commercial real estate lending business and related loan portfolio to iStar, the transaction with Gerald J. Ford and the potential sale of the Company's sub-prime residential loan servicing platform and other assets.

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Other non-interest expense categories for the second quarter and six months ended June 30, 2007 and 2006 are summarized below.

(Thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Legal, professional and other outside services	\$ 11,452	\$ 5,978	\$ 21,510	\$ 11,116
Information technology	2,841	4,334	6,572	7,424
Printing, supplies and postage	691	1,323	1,326	2,632
Advertising and promotion	1,057	1,208	3,113	3,587
Auto and travel	766	1,284	1,943	2,304
Leasing and loan expense	900	206	1,340	448
Net real estate owned expenses	166	(8,159)	249	(6,967)
Telephone	867	748	1,600	1,402
All other	14,084	3,779	19,038	7,579
Total other expenses	\$ 32,824	\$ 10,701	\$ 56,691	\$ 29,525

Income Taxes

Income tax benefit was \$7.4 million on a loss from continuing operations of \$19.5 million for the second quarter of 2007, compared to income tax expense of \$13.0 million on income from continuing operations of \$32.7 million for the second quarter of 2006.

For the six months ended June 30, 2007, income tax expense was \$2.8 million on income from continuing operations of \$2.9 million, compared to income tax expense of \$22.6 million on income from continuing operations of \$56.6 million for the comparable period in 2006.

The effective tax rate for 2007 and 2006 is different than the Federal enacted tax rate of 35% due mainly to various apportioned state income tax provisions and for 2007, a \$1.4 million adjustment to deferred taxes.

Discontinued Operations

As more fully described in Note 1 of Notes to Consolidated Financial Statements, in the first quarter of 2007, the Company decided to exit the residential real estate business and to sell substantially all of the assets related to such business. In accordance with accounting principles generally accepted in the United States, income after taxes from discontinued operations and the net loss on disposal of discontinued operations are reported in the consolidated statements of operations after income from continuing operations for all periods presented.

The loss from discontinued operations, net of income taxes, was \$253.0 million for the second quarter of 2007, representing a \$3.29 diluted loss per share, compared to income from discontinued operations, net of income taxes, of \$32.2 million, or \$0.42 diluted income per share for the second quarter of 2006. During the first six months of 2007, the loss from discontinued operations, net of income taxes, was \$855.9 million, representing a \$11.10 diluted loss per share, compared to income from discontinued operations, net of income taxes, of \$49.6 million, or \$0.65 diluted income per share for the comparable period in 2006.

During the second quarter of 2007, the Company recorded a realized loss of \$246.3 million related to the sale of \$4.32 billion of residential real estate loans held for sale. During the six months ended June 30, 2007, the Company recognized a loss of \$877.0 million related to the sale of \$8.51 billion of residential real estate loans held for sale. Expense provisions related to the residential real estate loan valuation, repurchase and premium recapture reserves are included in this loss. In addition, during the first six months of 2007, the Company recognized a \$38.8 million adjustment to write down the carrying value of the residential real estate held for sale assets to their estimated fair value less costs to sell.

During the second quarters of 2007 and 2006, the Company recognized \$56.6 million and \$133.8 million, respectively, in interest income on the residential real estate loan portfolio. During the six months ended June 30, 2007 and 2006, the Company recognized \$186.5 million and \$273.5 million, respectively, in interest income on the residential real estate loan portfolio.

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During the second quarter of 2007, the Company continued to service residential real estate loans, recognizing loan servicing income of \$30.8 million, as compared to \$23.5 million during the second quarter of 2006. During the six months ended June 30, 2007 and 2006, the Company recognized \$63.7 million and \$44.8 million, respectively, in loan servicing income. The Company was servicing on a maturity basis \$18.83 billion and \$18.12 billion in principal balance of loans as of June 30, 2007 and December 31, 2006, respectively.

The loss from discontinued operations for the six months ended June 30, 2007 includes a \$5.3 million charge for one time severance payments paid to employees of the residential real estate loan origination operations and related support staff. In addition, the Company recorded a \$10.7 million charge for lease termination costs related to the Company's residential real estate loan origination offices. For further information concerning the results of operations from the discontinued operations see Note 4 of Notes to Consolidated Financial Statements.

During the six months ended June 30, 2007, cash flows related to residential real estate loan originations and proceeds realized on the sale of such loans were \$3.89 billion and \$7.86 billion, respectively, and during the six months ended June 30, 2006, such cash flows were \$18.08 billion and \$17.15 billion, respectively. These amounts are included in cash flows from operating activities in the Company's consolidated statements of cash flows.

Review of Financial Condition

Commercial Real Estate Loans Held for Sale

As more fully described in Note 1 of Notes to Consolidated Financial Statements, on July 2, 2007 the Company completed the sale of its entire \$6.27 billion commercial real estate loan portfolio to iStar, and received cash of \$1.89 billion and a 70% participation interest of \$4.21 billion in the loans sold. Due to the Company's decision to sell the commercial real estate loan portfolio in the first quarter of 2007, the Company reclassified the portfolio from held for investment to held for sale. The following discussion is qualified in its entirety by such determination.

The Company's commercial real estate loans held for sale before the carrying value adjustment/allowance for loan loss was approximately \$6.22 billion at June 30, 2007, as compared to \$6.49 billion at December 31, 2006. Commercial real estate loan participations to other financial institutions or investors were \$642.5 million and \$202.0 million as of June 30, 2007 and December 31, 2006, respectively.

The following table provides additional information related to the Company's commercial real estate non-accrual loans, foreclosed assets, delinquencies, restructured loans on accrual status and accruing loans past due 90 days or more as of the dates indicated.

	June 30,	December 31,
(Thousands of dollars, except percents)	2007	2006
Non-accrual loans held for sale	\$ 946,662	\$ 1,110,965
Real estate owned / foreclosed assets	\$ 65,833	\$ 299
Accruing loans receivable past due 90 days or more	\$	\$
Restructured loans on accrual status	\$	\$

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Delinquent loans 60 days past due or greater	\$	370,218	\$	98,747
Non-accrual loans to loans held for sale		15.23%		17.12%

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

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Table of Contents**Assets and Liabilities of Discontinued Operations**

For additional information concerning the Company's assets and liabilities related to its discontinued operations, see Note 4 of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's commercial lending activities were financed primarily through deposit accounts offered by FIL and which are insured by the FDIC. FIL offers certificates of deposit and savings and money market deposit accounts (insured by the FDIC to the legal maximum) through its 22 branches in California. FIL minimizes the costs associated with its deposit operations by not offering traditional checking, safe deposit boxes, ATM access and other traditional retail services. Deposits totaled \$9.68 billion at June 30, 2007 and are summarized as to type as follows:

(Thousands of dollars)	Number of Accounts	Deposits
Savings and money market deposit accounts	39,393	\$ 1,677,440
Certificates of deposit:		
Retail	139,505	6,723,778
Brokered	N/M	1,279,927
 Total deposits		 \$ 9,681,145

N/M = not meaningful

During the first six months of 2007, additional financing was available to FIL through advances from the FHLB. FIL's credit line with the FHLB had a maximum financing availability that was based on a percentage of FIL's regulatory assets, to which the actual borrowing capacity was subject to collateralization and certain collateral sublimits and eligibility limitations. In March 2007, following the issuance of the Order and the Company's exit from the residential real estate lending business, the FHLB limited FIL's borrowing capacity to existing outstanding debt of \$3.67 billion. By March 31, 2007, FIL had utilized \$2.30 billion in proceeds from loan sales and \$618.0 million in debt from a warehouse lending facility to reduce the outstanding FHLB debt to \$800.0 million. As of June 30, 2007, outstanding FHLB debt was zero and all pledged collateral was released by the FHLB to FIL. FIL does not currently maintain pledged collateral with the FHLB.

In the first quarter of 2007, FIL pledged eligible commercial real estate loans to the Federal Reserve Bank of San Francisco under the Primary Credit program (the Program). There was no outstanding debt at any time during 2007 under the Program. In June 2007, in anticipation of the iStar Transaction, FIL removed all commercial real estate loans pledged as collateral under the Program. As of June 30, 2007, FIL did not maintain any pledged collateral with the Federal Reserve Bank. FIL does not currently maintain pledged collateral with the Federal Reserve Bank.

In the first quarter of 2007, in connection with the Company's exit from the residential real estate lending business, FIL mutually terminated two of four existing warehouse financing lines and elected to allow one financing facility to expire. As of March 31, 2007, outstanding debt on the remaining warehouse facility was \$618.1 million. On April 30, 2007 all outstanding debt on this facility was repaid. In June 2007, the remaining warehouse financing facility expired. As of June 30, 2007, FIL did not have any warehouse financing lines.

As of June 30, 2007, the Company's liquidity position was comprised of cash and high grade short term investments totaling \$3.23 billion. To ensure that these funds remain a source of short term liquidity the Company currently

anticipates that the composition of cash and short term investments will be predominantly invested in cash, cash equivalents and short-term U.S. government and agency securities.

As of March 31 and June 30, 2007, the Company's capital position was adversely impacted by the operating losses as further described above. Due to these losses, the potential impact of ongoing restructuring efforts on earnings, the adverse market conditions described above and the terms of the Order, the Company has limited access to capital at this time. The Company has submitted a capital plan to the FDIC as required by the Order.

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During 2006 and 2005, FIL had transferred by dividend certain of its residual interests in securitized loans to FGCC. The residual interests at FGCC as of June 30, 2007, had an estimated fair value of \$11.4 million. The purpose of these dividends was to create an additional source of cash flow to Fremont General to the extent of cash received from the residual interests.

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

The Company's ability to access the capital markets is very limited as a result of the factors described herein. If it were able to access capital, it would likely be with disadvantageous conditions and pricing reflecting current factors.

Fremont General has cash and cash equivalents of \$56.8 million as of June 30, 2007 and no debt maturities until March of 2009.

OFF-BALANCE SHEET ACTIVITIES

Prior to 2007, the Company securitized a certain amount of its residential real estate loans. Securitization was a process of transforming the loans into securities sold to investors. The loans were first sold to a special purpose corporation, which then transferred them to a qualifying special-purpose entity (a QSPE) which was legally isolated from the Company. The QSPE, in turn, issued interest-bearing securities, commonly known as asset-backed securities, that were secured by the future cash flows to be derived from the securitized loans. The QSPE used the proceeds from the issuance of the securities to pay the purchase price of the securitized loans.

The investors and the QSPEs do not have any recourse to the Company if the cash flows generated by the securitized loans are inadequate to service the securities issued by the QSPEs. At the close of each securitization, the Company removed from its balance sheet the carrying value of the loans securitized and added to its balance sheet the estimated fair value of the assets obtained in consideration for the loans which generally included the cash received (net of transaction expenses), retained junior class securities (referred to as residual interests) and mortgage servicing rights.

FORWARD LOOKING STATEMENTS

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 impact of the Company's withdrawal from the sub-prime residential real estate mortgage loan origination business;

the impact of the sale of FIL's commercial real estate lending business and related loan portfolio;

the uncertainty of the closing of an investment in FIL or Fremont General by an entity controlled by Gerald J. Ford and the ability of the Company to enter into any alternative transactions;

the ability of the Company to enter into new lending businesses;

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

the impact of competition and pricing environments on deposit products;

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the ability to access the necessary capital resources in a cost-effective manner to fund our operations;

our ability to sell our existing residential real estate loans held for sale and the prices obtained for such loans;

our ability to realize the full principal amount of the participation interest in the commercial real estate loan portfolio sold to iStar;

the impact of changes in the commercial real estate markets, in particular the housing market, and changes in the fair values of our assets and loans, including the value of the underlying real estate collateral;

the ability to service, 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 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;

the impact of the Order on the Company's ability to conduct its business;

our ability to maintain cash flow, including at the Fremont General level, sufficient for us to meet our debt service and other obligations;

the ability to maintain effective compliance with laws and regulations and control expenses;

the impact and cost of adverse state and federal legislation and regulations, litigation, court decisions and changes in the judicial or regulatory 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-Q 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.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

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 or losses on the sale of residential real estate loans, interest expense, net investment income and total stockholders' equity. The level of gain or loss on the sale of residential real estate loans is highly dependent upon the premium paid by the purchasers of such loans. 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 of the loans. The objective of the asset and liability management activities is to provide an acceptable 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.

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The Company is subject to interest rate risk resulting from differences between the rates on, and repricing characteristics of, interest-earning 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.

The Company is reliant upon the secondary mortgage market for execution of its whole loan sales 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 or change in the level of demand could lead to reduced gains (or higher losses) 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 could adversely impact the availability and pricing of such future transactions.

Quantitative and qualitative disclosures about the Company's market risk are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 4. Controls And Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2007, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). The management of Fremont General is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all error and all fraud. All internal control systems, regardless of how well designed and operated, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation.

The evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were not effective to insure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding the required disclosure, because of the material weaknesses described below:

The Company's management concluded that material weaknesses existed in its internal control over financial reporting as of June 30, 2007. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 ("2006 Annual Report") under Item 9A "Controls and Procedures," the following two material weaknesses were identified:

As of June 30, 2007, March 31, 2007 and December 31, 2006, we did not maintain effective operation of internal control over the application of accounting principles generally accepted in the United States of America, resulting in material adjustments to the Company's preliminary annual consolidated financial statements for the year ended December 31, 2006. Specifically, the Company misapplied the application of subsequent event accounting literature to its residential real estate loans held for sale, residual interests in securitized assets, and repurchase reserves as of December 31, 2006. This misapplication resulted in net understatement of loss on sale in the preliminary consolidated financial statements of approximately \$34.8 million and a net understatement of impairment of retained residual interests of approximately

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\$25.6 million. These adjustments are properly reflected in the Company's consolidated financial statements in its 2006 Annual Report. The adjustments are properly included in the Company's consolidated financial statements in its Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 and for the six months ended June 30, 2007.

As of June 30, 2007, March 31, 2007 and December 31, 2006, we did not maintain effective monitoring controls over the Company's commercial real estate business. Specifically, the following deficiencies were noted:

The grading of some commercial loans were not consistent with the Company's loan grading guidelines; and the valuation methodology used for collateral dependant loans was inappropriate.

As a result, there was an understatement of the allowance for loan loss in the preliminary consolidated financial statements as of December 31, 2006 of approximately \$35.7 million. This adjustment to the allowance for loan loss is properly reflected in the Company's consolidated financial statements in its 2006 Annual Report.

The Company believes that its consolidated financial statements included in this Quarterly Report on Form 10-Q for the six months ended June 30, 2007 fairly present, in all material respects, the Company's financial condition, results of operations and cash flows as of, and for, the periods presented.

REMEDICATION OF MATERIAL WEAKNESSES

As more fully described in the Company's 2006 Annual Report, Part I Item 1 Business, on July 2, 2007, the Company completed the sale of its commercial real estate lending business and related \$6.27 billion loan portfolio to iStar. The material weakness as of June 30, 2007, March 31, 2007 and December 31, 2006 related to monitoring controls was isolated to the commercial real estate business. The Company has discussed this material weakness with Squar, Milner, Peterson, Miranda & Williamson, LLP, the Company's independent registered public accounting firm, and the Company has concluded that this material weakness has been fully remediated by the sale of its commercial real estate lending business and related \$6.27 billion loan portfolio in the third quarter of 2007.

The Company has also fully remediated the material weakness related to the misapplication of subsequent event accounting literature, as management increased training and education related to proper accounting treatment for subsequent events. This was completed in the third quarter of 2007.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as otherwise discussed herein, there have been no changes in the Company's internal controls over financial reporting that have occurred since the beginning of the second fiscal quarter of 2007 that have materially affected, or are reasonably likely to material affect, the Company's internal controls over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a defendant in a number of legal actions or regulatory proceedings arising in the ordinary course of business, from the discontinuance of the insurance operations and from regulatory examinations conducted by the FDIC and the DFI.

Enron Corp., Et Al V. J.P. Morgan Securities, Et Al:

In November 2003, the Trustee for Enron Corporation filed voidable preference and fraudulent conveyance actions in the United States District Court for the Southern District of New York, Case No. 03-92677, seeking return of money from the Company for the redemption of Enron commercial paper prior to maturity and during the preference period. The initial Complaint and First Amended Complaint alleged Enron redeemed \$5 million of its commercial paper from the Company. On February 14, 2007, Enron filed a Second Amended Complaint which revised the claim against the Company from \$5 million to \$25 million. This increase represents the \$20 million Enron allegedly redeemed from the Company's former workers compensation insurance companies, now in liquidation. The Company does not believe there is any legal authority for a voidable preference or fraudulent conveyance against it for the alleged redemption of securities held by its subsidiaries. No trial date has been set. The case is currently in the discovery phase. The Company cannot predict the outcome and intends to vigorously defend against it.

The Bank of New York V. Fremont General Corporation:

In December 2003, The Bank of New York filed a complaint against the Company in the United States District Court for the Central District of California, Los Angeles Division, Case No. 03-9238, seeking return of approximately \$14 million transferred from a custodial account with The Bank of New York when those sums were maintained as security for the Superintendent of the New York State Department of Insurance. The Bank of New York seeks return of those sums under a variety of theories. Trial has been completed in this matter resulting in a complete judgment for the Company. The Bank of New York appealed to the Ninth Circuit. Oral argument was heard on July 9, 2007. A decision by the Ninth Circuit is expected in the near future.

Fremont Indemnity Company (In Liquidation) V. Fremont General Corporation, Et Al:

On June 2, 2004, the State of California Insurance Commissioner (the Commissioner), as statutory liquidator of Fremont Indemnity Company (Fremont Indemnity), filed suit in Los Angeles Superior Court against the Company alleging it improperly utilized certain net operating loss deductions (NOLs) allegedly belonging to Fremont Indemnity (the Fremont Indemnity Case). This complaint involves issues that were considered 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 the Company 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

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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 dismissed the only remaining cause of action in the lawsuit originally brought by the Commissioner on behalf of Fremont Indemnity against Fremont General, first reported on June 17, 2004.

On February 28, 2007, the Court of Appeal of the State of California reversed the trial court's dismissal and sent the case back to the trial court for further proceedings. The Company continues to believe that this lawsuit is without merit and intends to vigorously defend against it.

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. This ruling does not address or necessarily have legal effect on the related Fremont Indemnity case.

On February 28, 2007, the Court of Appeal of the State of California reversed the trial court's dismissal and sent the case back to the trial for further proceedings. The Company continues to believe that this lawsuit is without merit and intends to vigorously defend against it.

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 the Company 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) Tortious 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) Tortious 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, 2005, 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 Tortious 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, Fremont General'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.

On January 8, 2007, The Court heard oral argument on the Company's Motion for Summary Judgment. On January 11, 2007, the Court granted the Company's Motion thereby dismissing the case. On February 5, 2007, Gerling filed its Notice of Appeal. Initial briefs have been filed. A hearing date has not yet been set.

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Insurance Commissioner V. Rampino, Et Al:

On or about October 12, 2006, the California Insurance Commissioner, as Liquidator on behalf of Fremont Indemnity, filed a First Amended Complaint against certain former directors and officers of Fremont Indemnity for Breach of Fiduciary Duty. The Complaint alleges the defendant s breached their fiduciary duties by orchestrating and allowing Fremont Indemnity to engage in an inappropriate underwriting scheme that caused injury to Fremont Indemnity s reinsurers which in turn injured Fremont Indemnity by settlements it made with those reinsurers. The allegations in this complaint are substantially the same as those alleged by Gerling Global in its lawsuit. Although neither the Company nor any of its affiliates are defendants in this lawsuit, it is indemnifying and defending these directors and officers pursuant to the indemnification clause in Fremont General s bylaws. The case is currently in the discovery phase. Trial is currently scheduled to commence on April 14, 2008. The Company believes the lawsuit is without merit and intends to vigorously defend this matter.

Order to Cease & Desist:

As more fully described above, on March 7, 2007, Fremont General, FIL and FGCC consented to the Order issued by the FDIC without admitting to the allegations contained in the Order. The Order requires, among other things, that FIL make a variety of changes in its sub-prime residential loan origination business and also calls for certain changes in its commercial real estate lending business. In addition, the Order requires that FIL adopts a Capital Adequacy Plan to maintain adequate Tier 1 capital in relation to the risk profile of the Company. Further, the Order mandates various specific management requirements, including having and retaining qualified management acceptable to the FDIC and the DFI, and provides for enhanced regulatory oversight over FIL s operations.

The Company cannot predict the cost of compliance with the Order or the impact of the Order upon the Company s business, financial condition or results of operation.

ERISA Complaints:

In April through June of 2007, six complaints seeking class certification were filed in the United States District Court for the Central District of California against the Company and various officers, directors and employees by participants in the Company s Investment Incentive Plan (401(k) and Employee Stock Ownership Plan (collectively the Plans) alleging violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA) in connection with Company stock held by the Plans. The six complaints have been consolidated in a single proceeding. This litigation is still in its early stages. No trial date has been set. The Company believes the lawsuit is without merit and intends to vigorously defend this matter.

Securities Complaints:

In September 2007, three separate complaints seeking class certification were filed in the United States District Court for the Central District of California against the Company and various officers and directors alleging violations of federal securities laws in connection with published statements by the Company regarding its loan portfolio and loans held for resale during the period from May 9, 2006 through February 27, 2007. Management expects these lawsuits will be consolidated into a single proceeding. This litigation is still in its early stages. No trial date has been set. The Company believes these lawsuits are without merit and intends to vigorously defend these matters.

NAACP Litigation:

On July 11, 2007, the National Association for the Advancement of Colored People filed a lawsuit seeking class certification in United States District Court, Central District of California, against FIL and several other large home mortgage loan originators, alleging discriminatory lending practices. The lawsuit seeks injunctive relief and attorney fees, but not monetary damages, to enjoin defendants from the alleged discriminatory practices and to modify their conduct to comport with the law. The lawsuit has not yet been served on FIL. The Company believes the lawsuit is without merit with respect to FIL and intends to defend against it vigorously should FIL be served.

Table of Contents**Massachusetts Attorney General Action:**

In October 2007, the Office of the Attorney General of the Commonwealth of Massachusetts filed a lawsuit in Massachusetts Superior Court in Suffolk County on behalf of borrowers in Massachusetts, alleging that Fremont General and FIL engaged in unfair or deceptive practices in connection with the origination and servicing of residential mortgage loans. The complaint seeks injunctive relief, equitable relief for Massachusetts borrowers and civil penalties. The case is in its very early stages and the Company cannot predict the outcome or the effect it will have on its financial condition. However, the Company disagrees with the allegations in the lawsuit and intends to vigorously defend against it.

Item 1A. *Risk Factors*

We included a discussion of our Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006. There has been no material change in such risks during the six months ended June 30, 2007.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid per Share (or Unit) ⁽²⁾	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number
				(or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽³⁾
April 1-30, 2007	1,136	\$ 7.10	1,136	
May 1-31, 2007	55,027	\$ 12.73	55,027	
June 1-30, 2007	42,598	\$ 12.24	42,598	
TOTAL	98,761	\$ 12.45	98,761	1,425,628

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

⁽²⁾ The average price per share was \$12.45 for the three months ended June 30, 2007.

⁽³⁾ A repurchase program for four million shares was announced to the public on February 27, 2003, and a repurchase program for an additional four million shares was announced to the public on May 19, 2005.

Table of ContentsItem 6. *Exhibits*

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated as of May 21, 2007, between Fremont Investment & Loan and iStar Financial Inc. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
3.1	Restated Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 1998, Commission File Number 001-08007)
3.2	Certificate of Amendment of Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1998, Commission File Number 001-08007)
3.3(a)	Amended and Restated By-Laws of Fremont General Corporation. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
3.3(b)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on November 20, 2003. (Incorporated by reference to Exhibit 3.3(b) to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2003, Commission File Number 001-08007)
3.3(c)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on March 16, 2004. (Incorporated by reference to Exhibit 3.3(c) to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 2004, Commission File Number 001-08007)
4.1	Form of Stock Certificate for Common Stock of the Registrant. (Incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 001-08007)
4.2	Indenture with respect to the 9% Junior Subordinated Debentures among the Registrant, the Trust and Bank of New York (originated with First Interstate Bank of California), a New York Banking Corporation, as trustee. (Incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
4.3	Amended and Restated Declaration of Trust with respect to the 9% Trust Originated Preferred Securities among the Registrant, the Regular Trustees, Bank of New York, a Delaware banking corporation, as Delaware trustee, and Bank of New York, N.A., a national banking association, as Institutional Trustee. (Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
4.4	Preferred Securities Guarantee Agreement between the Registrant and Bank of New York, N.A., a national banking association, as Preferred Guarantee Trustee. (Incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
4.5	Common Securities Guarantee Agreement by the Registrant. (Incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
4.6	Form of Preferred Securities. (Included in Exhibit 4.5). (Incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 001-08007)
4.7	Form of Restricted Stock Agreement. (Incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-8 filed on May 18, 2006, Registration Number 333-134236)

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- 4.8 Form of Nonqualified Stock Option Agreement. (Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 filed on May 18, 2006, Registration Number 333-134236)
- 4.9 Investment Agreement, dated as of May 21, 2007, by and among the Registrant, Fremont Investment & Loan and Hunter's Glen/Ford, Ltd. (Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
- 4.10 Form of Exchange and Shareholder Rights Agreement. (Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
- 4.11 Form of Warrant. (Incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
- 4.12 Form of Certificate of Determination. (Incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
- 10.1(a)* Employment Agreement between the Registrant and Alan W. Faigin dated April 11, 2007. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 17, 2007, Commission File Number 001-08007)
- 10.1(b)* Letter Agreement between the Registrant and Alan W. Faigin dated April 2, 2007. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 28, 2007, Commission File Number 001-08007)
- 10.1(c)* Letter Agreement Amendment between the Registrant and Alan W. Faigin dated August 27, 2007. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 28, 2007, Commission File Number 001-08007)
- 10.2* Employment Agreement between the Registrant and Patrick E. Lamb dated April 11, 2007. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 17, 2007, Commission File Number 001-08007)
- 10.3(a)* Management Continuity Agreement among the Registrant, Fremont Investment & Loan and Ronald J. Nicolas, Jr. dated April 3, 2007. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 12, 2007, Commission File Number 001-08007)

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Exhibit No.	Description
10.3(b)*	Letter Agreement between Fremont Investment & Loan and Ronald J. Nicolas, Jr. dated April 3, 2007. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 12, 2007, Commission File Number 001-08007)
10.3(c)*	Letter Agreement between the Registrant and Ronald J. Nicolas, Jr. dated August 27, 2007. (Incorporate by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 28, 2007, Commission File Number 001-08007)
10.4	Form of Loan Participation Agreement. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 24, 2007, Commission File Number 001-08007)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management or compensatory plans or arrangements. With respect to long-term debt instruments, the Registrant undertakes to provide copies of such agreements upon request by the Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FREMONT GENERAL CORPORATION

Date: October 8, 2007

/s/ LOUIS J. RAMPINO

Louis J. Rampino
President and Chief Executive Officer

Date: October 8, 2007

/s/ RONALD J. NICOLAS, JR.

Ronald J. Nicolas, Jr.
*Senior Vice President, Chief Financial Officer,
Chief Accounting Officer and Treasurer
(Principal Accounting Officer)*

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