FREMONT GENERAL CORP
Form 10-Q
November 09, 2006

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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	95-2815260
(State or other jurisdiction of incorporation or organization)	(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 [X] 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 [X] 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 [X]

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

CLASS	SHARES OUTSTANDING OCTOBER 31, 2006
Common Stock, $1.00 par value	77,862,000

FREMONT GENERAL CORPORATION AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

FREMONT GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2006 (UNAUDITED) (THOUSANDS OF
ASSETS	
Cash and cash equivalents	$ 520,141
Investment securities classified as available-for-sale at fair value	24,458
Federal Home Loan Bank stock at cost	148,990
Loans held for sale - net	5,543,331
Loans held for investment - net	5,963,397
Mortgage servicing rights - net	84,883
Residual interests in securitized loans at fair value	132,699
Accrued interest receivable	70,834
Real estate owned - net	6,730
Premises and equipment - net	66,507
Deferred income taxes	102,989
Other assets	137,777
TOTAL ASSETS	$ 12,802,736
LIABILITIES	
Deposits:	
Savings accounts	$ 902,311
Money market deposit accounts	631,810
Certificates of deposit	8,025,371
	9,559,492
Warehouse lines of credit	-
Federal Home Loan Bank advances	1,230,000
Senior Notes due 2009	165,824
Junior Subordinated Debentures	103,093
Other liabilities	287,959
TOTAL LIABILITIES	11,346,368
Commitments and contingencies	-

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: (2006 - 77,862,000 and 2005 - 77,497,000)	77,471
Additional paid-in capital	330,250
Retained earnings	1,053,627
Deferred compensation	(22,139)
Accumulated other comprehensive income	17,159
TOTAL STOCKHOLDERS' EQUITY	1,456,368
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,802,736

The accompanying notes are an integral part of these statements.

3

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS OF DOLLARS,	
INTEREST INCOME:		
Interest and fee income on loans:		
Residential	$ 135,331	$ 115,007
Commercial	144,306	81,242
Other	100	(342)
	279,737	195,907
Interest income - other	17,829	12,107
	297,566	208,014
INTEREST EXPENSE:		
Deposits	113,704	70,265
FHLB advances	26,876	10,411
Warehouse lines of credit	2,300	929
Senior Notes	3,388	3,650
Junior Subordinated Debentures	2,320	2,320
Other	137	91
	148,725	87,666
Net interest income	148,841	120,348
Provision for loan losses	12,692	(4,071)

Net interest income after provision for loan losses	136,149	124,419
NON-INTEREST INCOME:		
Net gain (loss) on whole loan sales and securitizations of residential real estate loans	(9,622)	116,044
Loan servicing income	26,427	20,155
Mortgage servicing rights amortization and impairment provision	(12,975)	(6,588)
Impairment on residual assets	-	-
Other	5,915	4,602
	9,745	134,213
NON-INTEREST EXPENSE:		
Compensation and related	55,001	61,851
Occupancy	8,208	7,412
Other	35,983	33,334
	99,192	102,597
INCOME BEFORE INCOME TAXES	46,702	156,035
Income tax expense	17,177	63,470
NET INCOME	$ 29,525	$ 92,565
EARNINGS PER SHARE:		
Basic	$ 0.40	$ 1.27
Diluted	0.39	1.23
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.11	$ 0.08

The accompanying notes are an integral part of these statements.

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

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	DEFERRED COMPENSATI
			(THOUSANDS OF DOLLARS)	
Balance at December 31, 2004	$ 77,241	$ 330,328	$ 663,580	$ (58,9
Net income	-	-	273,437	
Cash dividends declared - $0.23 per share	-	-	(17,690)	
Conversion of LYONs	35	560	-	
Retirement of common stock	(95)	(936)	-	1,0

Shares issued, acquired or allocated for employee benefit plans	694	14,994	-	(32,4
Amortization of restricted stock	-	-	-	14,5
Shares allocated to ESOP	-	(1,368)	-	25,8
Change in cost of common stock held in trust	-	-	-	(5,0
Net change in unrealized gain on investments and residual interests, net of deferred taxes	-	-	-	
Excess tax benefits relating to share-based payments	-	2,382	-	
GSOP fair value adjustment	-	(3,715)	-	3,7
Balance at September 30, 2005	$ 77,875	$ 342,245	$ 919,327	$ (51,3
Balance at December 31, 2005	$ 77,497	$ 341,800	$ 966,112	$ (43,3
Net income	-	-	113,136	
Cash dividends declared - $0.33 per share	-	-	(25,621)	
Reclassification of deferred compensation for restricted stock	-	(20,902)	-	20,9
Retirement of common stock	(26)	26	-	
Shares issued, acquired or allocated for employee benefit plans	-	(1,673)	-	(23,0
Amortization of restricted stock	-	11,074	-	
Shares allocated to ESOP	-	(1,370)	-	24,3
Change in cost of common stock held in trust	-	-	-	(1,7
Net change in unrealized gain on investments and residual interests, net of deferred taxes	-	-	-	
Excess tax benefits relating to share-based payments	-	2,050	-	
GSOP failr value adjustment	-	(755)	-	7
Balance at September 30, 2006	$ 77,471	$ 330,250	$ 1,053,627	$ (22,1

The accompanying notes are an integral part of these statements.

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

	NINE MON SEPTEM
	2006
	(THOUSANDS
OPERATING ACTIVITIES	

Net income	$ 113,136
Adjustments to reconcile net income to net cash used in operating activities:	
Provision for loan losses	28,280
Provision for premium recapture, repurchase and valuation reserves of residential real estate loans held for sale	140,276
Premium refunds	(21,039)
Change in mortgage servicing rights	(68,739)
Change in residual interests in securitized loans	41,994
Cash from residual interests in securitized loans	33,993
Provision for deferred income taxes	(21,269)
Depreciation, amortization, accretion and impairment of retained interests	17,650
Compensation expense related to deferred compensation plans	4,872
Change in accrued interest	(28,711)
Change in other assets	(34,043)
Change in accounts payable and other liabilities	(31,392)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE LOANS HELD FOR SALE ACTIVITY	175,008
Originations of residential loans held for sale	(25,838,207)
Sale of and payments received from loans held for sale	25,305,503
Loan payments received for residential real estate loans held for sale	333,379
NET CASH USED IN OPERATING ACTIVITIES	(24,317)
INVESTING ACTIVITIES	
Originations and advances funded for loans held for investment	(3,068,122)
Payments received from and sales of loans held for investment	1,711,609
Investment securities available for sale:	
Purchases	(4,352)
Maturities or repayments	210
Net purchases of FHLB stock	(12,972)
Purchases of premises and equipment	(16,064)
NET CASH USED IN INVESTING ACTIVITIES	(1,389,691)
FINANCING ACTIVITIES	
Deposits accepted, net of repayments	957,499
FHLB advances, net of repayments	281,000
Extinguishment of Senior Notes and LYONs	(9,636)
Dividends paid	(24,806)
Excess tax benefits related to share-based payments	2,050
Purchase of company common stock for deferred compensation plans	(40,601)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,165,506
Decrease in cash and cash equivalents	(248,502)
Cash and cash equivalents at beginning of period	768,643
Cash and cash equivalents at end of period	$ 520,141

The accompanying notes are an integral part of these statements.

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

	THREE MONTHS ENDED SEPTEMBER 30, 2006	2005
	(THOUSANDS O	
Net income	$ 29,525	$ 92,565
Other comprehensive income (loss):		
Net change in unrealized gains (losses) during the period:		
Residual interests in securitized loans	(4,023)	6,346
Investment securities	(149)	(2)
	(4,172)	6,344
Less income tax expense (benefit)	(1,656)	2,538
Other comprehensive net income (loss)	(2,516)	3,806
Total comprehensive net income	$ 27,009	$ 96,371

The accompanying notes are an integral part of these statements.

7

NOTE 1: BASIS OF PRESENTATION

Fremont General Corporation ("Fremont General" or when combined with its subsidiaries "the Company" or "we") is a financial services holding company. Fremont General's financial services operations are consolidated within Fremont General Credit Corporation ("FGCC"), which is engaged in commercial and residential (consumer) real estate lending nationwide through its California industrial bank subsidiary, Fremont Investment & Loan ("FIL"). FIL's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum legal limits.

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 (consisting of normal recurring accruals) considered necessary for the fair presentation of the interim financial statements have been included. The operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

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, 2005.

NOTE 2: RECENT ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). This amended standard requires all entities to recognize compensation expense over the related vesting period in an amount equal to the fair value of share-based payments granted to employees. The Company adopted SFAS No. 123(R) as of January 1, 2006 on the modified prospective basis without any significant impact on the Company's financial position or results of operations.

The primary impact of adopting SFAS No. 123(R) on the Company's financial statements was the reclassification of the deferred compensation balance as of December 31, 2005 ($20.9 million) related to its nonvested restricted shares to additional paid-in capital. (See Note 17)

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 requires a change in accounting principle to be retrospectively applied as of the beginning of the first period presented in the financial statements as if that principle had always been used, unless it is impracticable to do so. SFAS No. 154 applies to all voluntary changes in accounting principles as well as to changes required by accounting pronouncements that do not include specific transaction provisions. The Company adopted SFAS No. 154 as of January 1, 2006 without any significant impact on the Company's financial position or results of operations.

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. SFAS No. 155 is effective for all financial instruments acquired or issued after January 1, 2007. The Company does not believe the adoption of SFAS No. 155 will have a 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. Any such servicing assets or liabilities are required to be initially measured at fair value, if practicable.

The Company currently values the mortgage servicing rights assets ("MSRs") associated with its residential real estate whole loan sales and securitizations (where servicing is retained) at the lower of cost or market. Likewise, the Company currently calculates its gain on whole loan sales and securitizations by allocating the carrying value of the existing held for sale loans to the assets retained based on their relative fair values at the date of the sale or securitization. The provisions of SFAS No. 156 may affect the future carrying value of the MSRs as well as the Company's gain on sale and securitizations; however, the Company does not believe the adoption of SFAS No. 156 will result in a significant impact on its financial position or results of operations. SFAS No. 156 is effective for the Company's fiscal year beginning January 1, 2007.

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 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 is currently evaluating the impact of adopting FIN No. 48; however, the Company does not believe the adoption will have a significant impact on its financial position or results of operations. FIN No. 48 is effective for the Company's fiscal year beginning January 1, 2007.

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 September 2006, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Specifically, SAB No. 108 indicates that registrants should use both a balance sheet (iron curtain) approach as well as an income statement (rollover) approach when quantifying and evaluating the materiality of a misstatement. SAB No. 108 contains guidance on correcting errors under this dual approach as well as transition guidance for correcting errors existing in prior years.

The Company adopted the provisions of SAB No. 108 as of and for the quarter ended September 30, 2006 without any impact on the Company's financial position or results of operations.

NOTE 3: CASH AND CASH EQUIVALENTS

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF
Cash on hand	$ 258
Non-interest bearing deposits in other financial institutions	92,283
FHLB shareholder transaction account	304,441
Federal Reserve account	1,531
Short-term money market funds	31,268
U.S. Government Agency money market fund	-
Short-term commercial paper	90,360
Total cash and cash equivalents	$ 520,141

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. The Company's cash and cash equivalent balances were unrestricted as of September 30, 2006 and December 31, 2005.

NOTE 4: INVESTMENT SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE

The amortized cost, unrealized gains, unrealized losses and fair value of the Company's investment securities as of September 30, 2006 were as follows:

	AMORTIZED COST	UNREALIZED GAINS
		(THOUSANDS
Mortgage-backed securities		
Agency	$ 667	$ -
Private issue	21,874	2,028
Total available-for-sale securities	$ 22,541	$ 2,028

There were no realized gains or losses on the available-for-sale securities during the three and nine months ended September 30, 2006. Unrealized gains or losses are included in other comprehensive income. The private issue securities represent two mortgage-backed securities retained from two of the Company's residential real estate loan securitization transactions.

NOTE 5: LOANS HELD FOR SALE

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

The Company's residential real estate loans have loan maturities for up to thirty years and are typically secured by first deeds of trust on single-family residences. Many of the loans have principal amortization terms in excess of thirty years (such as forty and fifty years) or no principal amortization (interest-only loans). The Company's residential real estate loans held for sale typically have a significant concentration (generally 80% or higher) of "hybrid" loans which have a fixed rate of interest for an initial period (generally two years) after origination, after which the interest rate is adjusted to a rate equal to the sum of six-month LIBOR and a margin as set forth in the mortgage note. The interest rate then adjusts at each six-month interval thereafter, subject to various initial, periodic and lifetime interest rate caps and floors. The loans are generally made to borrowers who do not satisfy all of the credit, documentation and other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac, and are commonly referred to as "sub-prime" or "non-prime."

The following table details the loans held for sale as of the dates indicated:

	SEPTEMBER 30, 2006 (THOUSANDS OF
Loan principal balance:	
First trust deeds	$ 5,180,894
Second trust deeds	420,430
	5,601,324
Net deferred direct origination costs	38,292
	5,639,616
Valuation reserve	(96,285)
Loans held for sale - net	$ 5,543,331
Loans held for sale on non-accrual status	$ 49,794

Tier I loans are the Company's standard loans that are typically sold at a premium. Tier II loans are those that do not meet the criteria for a Tier I sale due to delinquency status, documentation issues or loan program exceptions for which the Company typically receives lower pricing. The following table shows the unpaid principal balance of the Tier II loans included in the total loans held for sale balance indicated above.

	SEPTEMBER 30, 2006 (THOUSANDS OF
Tier II loans (before valuation reserves):	
First trust deeds	$ 172,178
Second trust deeds	80,904
	$ 253,082

The following table shows the amount of the Tier II loan sales during the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Tier II loan sales (principal):		
First trust deeds	$ 400,503	$ 137,322
Second trust deeds	16,798	6,897
	$ 417,301	$ 144,219

Since most of the loans that are held for sale are sold within approximately sixty days of origination, the amount of loans held for sale that are classified as non-accrual or become real estate owned, is generally small. A valuation reserve is maintained based upon the Company's estimate of inherent valuation impairment. Provisions for the valuation reserve are charged against gain (loss) on sale of loans. Activity in the valuation reserve is summarized in the following table for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance	$ 74,433	$ 54,654
Provision	39,820	(20,691)
Discounted sales	(61,928)	(10,811)
Charge-offs	(4,419)	(1,106)
Transfer from repurchase reserve	48,379	13,302
Ending balance	$ 96,285	$ 35,348

The valuation reserve is apportioned as follows as of the dates indicated:

	SEPTEMBER 30, 2006

	(THOUSANDS OF
First trust deeds	$ 30,644
Second trust deeds	65,641
	$ 96,285

In the ordinary course of business, as the loans held for sale are sold, the Company makes standard industry representations and warranties about the loans. The Company may have to subsequently repurchase certain loans due to defects that occurred in the origination of the loans. Such defects are

14

categorized as documentation errors, underwriting errors, or fraud. In addition, the Company is generally required to repurchase loans from previous whole loan sale transactions that experience first payment defaults. If there are no such defects or early payment defaults, the Company has no commitment to repurchase loans that it has sold. During the third quarter of 2006, the Company repurchased a total of $294.2 million in loans, as compared to $126.7 million for the third quarter of 2005. In addition, the Company re-priced $51.5 million in loans during the third quarter of 2006 and did not re-price any loans during the third quarter of 2005. Re-priced loans are loans that are subject to repurchase but which are settled at a reduced price. The Company maintains a reserve for the estimated losses expected to be realized when the repurchased loans are sold; this reserve is included in other liabilities and totaled $34.2 million and $14.6 million as of September 30, 2006 and December 31, 2005, respectively. This reserve is based upon the expected future repurchase trends for loans already sold in whole loan sale transactions and the expected valuation of such loans when repurchased. At the point the loans are repurchased, the associated reserves are transferred to the valuation reserve. Provisions for the repurchase reserve are charged against gain (loss) on sale of loans. The following table summarizes the activity in the repurchase reserve for the periods indicated.

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance	$ 57,586	$ 10,217
Provision	31,184	26,831
Charge-offs for loan repricing	(6,199)	-
Transfer to valuation reserve	(48,379)	(13,302)
Ending balance	$ 34,192	$ 23,746

The repurchase reserve is apportioned as follows as of the dates indicated:

	SEPTEMBER 30, 2006
	(THOUSANDS OF
First trust deeds	$ 22,910
Second trust deeds	11,282
	$ 34,192

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 loans held for sale; this reserve totaled $6.3 million and $4.3 million as of September 30, 2006 and December 31, 2005, respectively, and is included in other liabilities. Provisions for the premium recapture reserve are charged against gain (loss) on sale of loans. The following table summarizes the activity in the premium recapture reserve for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance	$ 10,661	$ 10,555
Provision for premium recapture on repurchased loans	2,858	2,908
Provision for standard premium recapture	2,855	4,765
Refunds	(10,041)	(7,631)
Ending balance	$ 6,333	$ 10,597

The following table reconciles the loan valuation, repurchase and premium recapture provisions to the amounts included in the Company's gain (loss) on sale of loans for the periods indicated. (See Note 11)

THREE MONTHS ENDED

	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005
	(THOUSANDS	
Provision for repurchase reserve	$ 31,184	$ 26,831
Provision for valuation reserve	39,820	(20,691)
Provision for premium recapture on repurchased loans	2,858	2,908
Provision for standard premium recapture	2,855	4,765
Other	(445)	(327)
Total provision for valuation, repurchase and premium recapture reserves	$ 76,272	$ 13,486

NOTE 6: LOANS HELD FOR INVESTMENT

Loans held for investment consists of the Company's commercial real estate loans. Commercial real estate loans, which are primarily variable rate (generally based upon either one, three or six-month LIBOR and a margin), represent loans secured primarily by first mortgages on properties such as condominium (construction and conversion), office, retail, industrial, multi-family, land development, mixed-use and lodging. The commercial real estate loans are 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 are funded throughout the term as the construction progresses.

16

As of September 30, 2006, the Company had $4.21 billion in unfunded commitments for existing loans and $536.4 million in unfunded commitments for loans not yet booked, as compared to $3.40 billion and $410.5 million, respectively, as of December 31, 2005. Due to the variability in the timing of the funding of these unfunded commitments, and the extent to which they are ultimately funded, these amounts should not generally be used as a basis for predicting future outstanding loan balances.

Commercial real estate loans are reported net of participations to other financial institutions or investors in the amount of $220.6 million and $138.2 million as of September 30, 2006 and December 31, 2005, respectively. The Company's commercial real estate loans also include mezzanine loans (second mortgage loans, which are subordinate to the senior or first mortgage loans) in the amounts of $10.1 million and $5.6 million as of September 30, 2006 and December 31, 2005, respectively.

The geographic dispersion of the Company's commercial real estate loan balances outstanding is as follows:

SEPTEMBER 30,

	2006
California	19.3%
Florida	15.0%
New York	11.9%
Virginia	9.6%
Arizona	7.2%
Hawaii	6.2%
Maryland	4.7%
Illinois	4.6%
All other states	21.5%
	100.0%

17

The loan balances in the portfolio were distributed by property type as follows as of the dates indicated:

	SEPTEMBER 30, 2006
Multi-family - Condominiums:	
Construction	32%
Conversion	23%
	55%
Land Development	14%
Office	9%
Retail	6%
Special Purpose	5%
Commercial Mixed-Use	4%
Multi-family - Other	3%
Industrial	3%
Hotels & Lodging	1%
	100%

The Company does not currently hold residential real estate loans held for investment. The following tables further detail the net loans held for investment as of the dates indicated:

	SEPTE
	COMMERCIAL REAL ESTATE

	(THOUSA
Loans outstanding	$ 6,417,142
Participations sold	(220,640)
Loans outstanding, net of participations sold	6,196,502
Unamortized deferred origination fees and costs	(56,521)
Loans outstanding before allowance for loan losses	6,139,981
Allowance for loan losses	(185,145)
Loans held for investment - net	$ 5,954,836

	DECE
	COMMERCIAL REAL ESTATE
	(THOUSA
Loans outstanding	$ 4,940,460
Participations sold	(138,165)
Loans outstanding, net of participations sold	4,802,295
Unamortized deferred origination fees and costs	(50,984)
Loans outstanding before allowance for loan losses	4,751,311
Allowance for loan losses	(156,755)
Loans held for investment - net	$ 4,594,556

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

	SEPTEMBER 30, 2006

	(THOUSANDS OF
Non-accrual commercial real estate loans held for investment	$ 36,478
Restructured commercial real estate loans on accrual status	$ -

The Company employs a documented and systematic methodology in estimating the adequacy of its allowance for loan losses, which assesses the risk of losses inherent in the portfolio, and represents the Company's estimate of probable inherent losses in the loan portfolio as of the date of the financial statements. Establishment of the allowance for loan losses involves determining reserves for individual loans that have been deemed impaired and for groups of loans that are evaluated collectively. Reviews are performed to set allowance allocations for loans that have been individually evaluated and identified as loans which have probable losses; reserve requirements are attributable to specific weaknesses evidenced by various factors such as a deterioration in the quality of the collateral securing the loan, payment delinquency or other events of default. Performing loans that currently exhibit no significant identifiable weaknesses or impairment are evaluated on a collective basis. The allowance for loan losses methodology incorporates management's judgment concerning the expected effects of current economic events and trends on portfolio performance, as well as the impact of concentration factors (such as property types, geographic regions and loan sizes). While the Company's methodology utilizes historical and other objective information, the establishment of the allowance for loan losses is to a significant extent based upon the judgment and experience of the Company's management. The Company believes that the allowance for loan losses is appropriate as of September 30, 2006 to cover inherent losses embedded in the loan portfolio; however, future changes in circumstances, economic conditions or other factors, including the effect of the Company's various loan concentrations, could cause the Company to increase or decrease the allowance for loan losses as necessary. Activity in the allowance for loan losses is summarized in the following table:

19

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance	$ 172,688	$ 159,956
Provision for loan losses	12,692	(4,071)
Charge-offs	(190)	-
Recoveries	37	2,828
Ending balance	$ 185,227	$ 158,713

At September 30, 2006 and December 31, 2005, the recorded investment in loans (excluding loans held for sale) considered to be impaired was $36.5 million and $29.3 million, respectively, all of which were on a non-accrual basis. The Company's policy is to consider a loan impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Evaluation of a loan's impairment is based on the present value of expected cash flows or the fair value of the collateral, if the loan is collateral dependent. As a result of charge-offs, these impaired loans do not necessarily have a related specific allowance for loan loss allocated to them. However, there were $36.5 million and $29.3 million of loans considered impaired that have allocated specific allowances that totaled $4.1 million and $2.3 million at September 30, 2006 and December 31, 2005, respectively. The average net investment in impaired loans held for investment was $36.6 million and $20.8 million for the three months ended September 30, 2006 and 2005, respectively. The company did not recognize any interest income on the cash basis of accounting for loans considered impaired for the three months ended September 30, 2006 and 2005. Interest income that was recognized on the cash basis of accounting on loans classified as impaired was $0 and $35,000 for the nine months ended September 30, 2006 and 2005, respectively. Interest income foregone for loans on non-accrual status that had not performed in accordance with their original terms was $1.0 million and $1.1 million for the three months ended September 30, 2006 and 2005, respectively and, $3.1 million and $5.4 million, for the nine months ended September 30, 2006 and 2005, respectively.

The Company's policy for determining past due or delinquency status is based on contractual terms except where loans are contractually matured but continue to make current interest payments. At September 30, 2006 the Company had two loans which were cross-collateralized and totaled $75.0 million which were both contractually matured; these loans, however, continued to make current interest payments and were therefore not considered delinquent and continued to be reported on an accrual basis. The loans have sufficient collateral to discharge the debt and management reasonably expects repayment of a significant portion of the loan amount outstanding and renewal of one of the loans during the fourth quarter of 2006.

20

In addition to its allowance for loan losses, the Company maintains an allowance for unfunded commercial real estate loan commitments on its existing loans. This allowance totaled $5.0 million and $4.0 million as of September 30, 2006 and December 31, 2005, respectively, and is included in other liabilities.

NOTE 7: REAL ESTATE OWNED

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF

Commercial real estate	$ 2,649
Residential real estate	4,384
Real estate owned before valuation reserve	7,033
Valuation reserve	(303)
Real estate owned - net	$ 6,730

NOTE 8: MORTGAGE SERVICING RIGHTS

At the time of securitization or sale of loans on a whole loan basis with servicing rights retained, the Company analyzes whether the benefits of servicing are greater than or less than adequate compensation and, as a result, records where appropriate, a mortgage servicing rights asset or liability ("MSR"), respectively. The estimated fair value of the Company's mortgage servicing rights at September 30, 2006 and December 31, 2005 was $91.0 million and $57.4 million, respectively. The following tables summarize the activity in the Company's mortgage servicing rights asset as of the periods indicated:

21

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance	$ 62,739	$ 24,525
Additions from:		
Securitization transactions	20,852	6,511
Whole loan sales - servicing retained	14,267	5,764
Amortization	(12,975)	(5,574)
Ending balance before valuation allowance	84,883	31,226
Valuation allowance:		
Beginning balance	-	(2,207)
Provision for temporary impairment	-	(1,014)
Ending balance	-	(3,221)
Mortgage servicing rights - net	$ 84,883	$ 28,005
Estimated fair value	$ 90,967	$ 30,320

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

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

	SEPTEMBER 30, 2006
Weighted-average life (years)	1.4
Weighted-average annual prepayment speed	47.0%
Weighted-average annual discount rate	15.0%

As a servicer, the Company is required to make certain advances on specific loans it is servicing, to the extent such advances are deemed collectible by the Company from collections related to the individual loan. The total amount outstanding of such servicing advances was $55.9 million and $22.5 million at September 30, 2006 and December 31, 2005, respectively, and is included in other assets.

22

NOTE 9: RESIDUAL INTERESTS IN SECURITIZED LOANS

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

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Beginning balance at fair value	$ 107,535	$ 16,784
Additions to residual interests	22,642	4,300
Sales of residual interests	-	-
Interest accretion	8,946	4,262
Cash received	(2,401)	(3,470)
Fair value adjustments	(4,023)	6,345

Permanent impairment	-	-
	---------	--------
Ending balance at fair value	$ 132,699	$ 28,221
	=========	========

Included in the $170.7 million balance of residual interests at December 31, 2005 was one "pre-NIM" residual interest with an estimated fair value of $118.3 million from a securitization transaction completed in December 2005. The Company, in January 2006, completed a NIM transaction of this one "pre-NIM" residual interest, resulting in a reduction of $77.2 million in the balance of the residual interests.

Loans sold through securitization transactions are done so on a non-recourse basis to off-balance sheet qualifying special-purpose entities ("QSPEs"), except for representations and warranties customary within the mortgage banking industry. In a NIM transaction, the certificates representing the residual interest in certain excess cash flows from the original securitization transaction are transferred to a QSPE, which issues interest-bearing securities. The net proceeds from the sale of these NIM securities, along with a residual interest certificate, represent the consideration received by the Company. The residual interest certificate retained from a NIM transaction is subordinate to the NIM securities issued until the NIM securities are paid in full. The residual interests retained are classified as "available-for-sale" securities and are measured at fair value; any unrealized gains or losses from adjustments to the estimated fair value, net of taxes, are reported as part of accumulated other comprehensive income, which is a separate component

23

of stockholders' equity. Impairment that is considered other-than-temporary is recorded as a reduction of other non-interest income. During the second quarter of 2006, the Company recognized permanent impairment on two of its retained residual interests due primarily to utilization of more accurate pre-payment fee assumptions. In the original securitizations and NIM transactions, a two-tier structure is utilized in which the loans are first sold to a special purpose corporation (referred to as the Depositor), which then transfers the loans to the QSPE.

The following table summarizes delinquencies and credit losses as of September 30, 2006 for the loans underlying the Company's 14 outstanding securitization transactions (thousands of dollars):

Original principal amount of loans securitized	$ 14,674,212
Current principal amount of loans securitized	$ 9,094,691
Current delinquent principal amount (over 60 days)	$ 604,802
Inception to date credit losses (net of recoveries)	$ 35,839

The Company determines the estimated fair values of the residual interests by discounting the expected net cash flows to be received utilizing the cash-out method. The Company uses the forward LIBOR curve for estimating interest rates on the adjustable rate loans and the variable rate securities, and utilizes other assumptions (primarily for losses, prepayment speeds and delinquencies) that management believes are consistent with assumptions other major market participants would use to appropriately estimate the fair value of similar residual interests. The Company continually evaluates the various assumptions utilized in estimating the fair value of the retained residual interests and updates them as deemed necessary based upon the development of historical vintage data. Such residual interest valuations remain, however, subject to volatility due to fluctuations in the performance of the underlying collateral and in the accuracy of the assumptions utilized by the Company.

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

	SEPTEMBER 30, 2006
Weighted-average life (years)	1.6
Weighted-average annual prepayment speed	46.7%
Weighted-average lifetime credit losses	4.8%
Weighted-average annual discount rate	20.0%

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS

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

At September 30, 2006, the Company's commitments to sell forward residential real estate loans to third party investors in whole loan sales transactions were approximately $2.4 billion at various rates and terms. The Company distinguishes commitments to sell forward loans in two categories, allocated and unallocated. At September 30, 2006, allocated and unallocated forward sale commitments notional amounts were $1.4 billion and $1.0 billion, respectively. Allocated forward sales commitments are contractual sales agreements whereby a specific pool of loans is agreed upon to be sold to specific buyers at a contractually agreed upon date and price. In accordance with SFAS No. 133, the Company may, under certain circumstances, designate and account for its allocated forward sales commitments as fair value hedges designated to specific pools of loans that have been contractually agreed upon for sale; however, as of September 30, 2006, no hedges were designated as such. Unallocated forward sales commitments are agreements that provide a fixed price on a pool of loans not yet specified. These commitments are treated as economic hedges (and are not currently designated as accounting hedges) and are classified as free-standing derivatives. Changes in the fair value of both the unallocated and allocated forward sales commitments are reported as a component of gain (loss) on sale of residential real estate loans and as either other assets or liabilities, as applicable.

25

At September 30, 2006, the Company had a pipeline of loans in process of approximately $1.4 billion in new residential real estate loans. The Company does not guarantee interest rates to potential borrowers when an application is received. Because these loans are generally subject to the potential borrower accepting and meeting the conditions of the loan approval, the Company estimates its effective net pipeline position at approximately $811 million, as adjusted for expected loan fallout. The Company conditionally quotes interest rates to potential borrowers, which are then subject to adjustment by the Company if any such conditions are not satisfied. As such, the Company ascribes no value to its conditional loan approvals as there are no interest rate-lock commitments on the loans.

The Company's Eurodollar futures contracts are currently treated as economic hedges and are not currently designated as accounting hedges and are classified as free-standing derivatives. As of September 30, 2006, the Company had in place short Eurodollar futures positions covering loan principal of $2.7 billion and $342.4 million for its loans held for sale and its unfunded loan pipeline, respectively. Eurodollar futures are utilized in an effort to offset the changes in value related to the loan inventory and pipeline without the necessity of restricting certain loan inventory or pipeline loans to a specific forward sale commitment. The Company's Eurodollar futures positions are settled each day based on their ending fair values; as such, the Company does not reflect any asset or liability position for these derivatives. The Company records these daily fair value changes and settlements as a component of the gain (loss) on sale of residential real estate loans. The Company's Eurodollar futures contracts are collateralized by maintenance of a margin account which is included in other assets and had a balance of $10.3 million as of September 30, 2006.

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF

Forward sales commitments	$ (5,335)
Interest rate cap contract	-
Other	-
	$ (5,335)

The changes in fair value of the derivative instruments are recorded as part of the net gain (loss) on whole loan sales and securitizations. (See Note 11)

26

NOTE 11: GAIN (LOSS) ON WHOLE LOAN SALES AND SECURITIZATION OF RESIDENTIAL REAL ESTATE LOANS

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

The Company maintains a valuation reserve for its loans held for sale based on the Company's estimate of inherent valuation impairment. The Company also records a repurchase reserve for the estimated losses expected to be realized for any repurchased loans when they are resold. The provisions for both of these reserves are recorded as adjustments to the Company's net gain (loss). The provision for premium recapture is the provision for the return of premium on loans sold which prepay early per the terms of each sales contract; this amount includes some interest adjustment. The following table presents the detailed components of the net gain (loss) on whole loan sales and securitizations:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Gross whole loan sales (Firsts)	$ 5,084,883	$ 7,602,299
Gross whole loan sales (Seconds)	277,469	760,737
Loans sold into securitizations (Firsts)	2,620,790	993,936
Loans sold into securitizations (Seconds)	464,889	38,789
	8,448,031	9,395,761
Less: Repurchases	(294,170)	(126,676)

Total loan sales and securitizations - net of repurchases	$ 8,153,861	$ 9,269,085
Gross premium recognized on Tier I loan sales and securitizations	$ 148,536	$ 217,024
Net gain (loss) on derivative instruments	(20,402)	24,218
	128,134	241,242
Net direct loan origination costs	(61,484)	(111,712)
Provisions for valuation, repurchase and premium recapture reserves	(76,272)	(13,486)
Net gain (loss) on sale	$ (9,622)	$ 116,044

The net gain (loss) on derivative instruments included in the net gain (loss) on whole loan sales and securitizations of residential real estate loans consists of the following items:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Eurodollar futures:		
Net realized gain (loss)	$ (20,242)	$ 16,084
Transaction expenses and other	(446)	4,785
	(20,688)	20,869
Change in fair value of:		
Forward sales commitments	(9,103)	6,435
Other	9,389	(3,086)
Net gain (loss) on derivative instruments	$ (20,402)	$ 24,218

The Company realized a $9.4 million gain related to the positive change in fair value of two interest rate swap contracts related to its two securitization transactions completed during the third quarter of 2006. The Company purchased the swap contracts prior to the securitization transaction closing dates and therefore realized the benefits of the changes in fair value between the time the swaps were purchased and when they were included as part of the consideration in the securitizations.

NOTE 12: LOAN SERVICING INCOME

In addition to the securitized loans that it services, the Company also services loans sold to other financial institutions on an interim basis (until servicing is transferred to another party) and on a to maturity basis (servicing retained). The following table presents the components of loan servicing income for the Company:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS	
Servicing fee income:		
Securitization transactions	$ 8,441	$ 6,108
Interim	5,592	9,807
Loans sold - servicing retained	5,363	897
Ancillary income (1):		
Securitization transactions	1,924	1,269
Interim	659	889
Loans sold - servicing retained	930	156
Other (2):		
Securitization transactions	2,590	906
Loans sold - servicing retained	928	123
Loan servicing income	$ 26,427	$ 20,155

NOTE 13: INCOME TAXES

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS	
Federal:		
Current	$ 16,412	$ 42,141
Deferred	56	10,134
	16,468	52,275

State:		
Current	230	8,488
Deferred	479	2,707
	709	11,195
Total income tax expense	$ 17,177	$ 63,470

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. During the third quarter of 2006, the Company successfully resolved several state tax matters and reduced its accrual relating to these matters by $2.7 million.

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:

	SEPTEMBER 30, 2006
	(THOUSANDS OF
Deferred tax assets:	
Mark-to-market on loans held for sale	$ 51,745
Allowance for loan losses	81,211
Compensation related items	22,689
State income and franchise taxes	8,274
Other - net	-
Total deferred tax assets	163,919
Deferred tax liabilities:	
Loan origination costs	(20,778)
Mortgage servicing	(39,514)
Other - net	(638)
Total deferred tax liabilities	(60,930)
Net deferred tax asset	$ 102,989

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. In the Company's opinion, the deferred tax assets will be fully realized and no valuation allowance is necessary as the Company has the ability to generate sufficient future taxable income to realize the tax benefits.

NOTE 14: DEBT - FREMONT GENERAL CORPORATION

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

	SEPTEMBER 30, 2006 (THOUSANDS OF
Senior Notes due 2009, less discount (2006 - $706; 2005 - $975)	$ 165,824
Junior Subordinated Debentures	103,093
	$ 268,917

During the third quarter of 2006, Fremont General repurchased $3.8 million par value of the 7.875% Senior Notes due 2009 with a carrying value of $3.7 million resulting in a pre-tax gain of $30,000. For the nine months ended September 30, 2006, Fremont General repurchased $9.8 million par value of 7.875% Senior Notes due 2009 with a carrying value of $9.7 million resulting in a pre-tax gain of $67,000. There were no repurchases of 7.875% Senior Notes due 2009 through the first nine months of 2005.

Fremont General's 9% Junior Subordinated Debentures are the sole asset of Fremont General Financing I, a statutory business trust (the "Trust") and wholly-owned subsidiary of Fremont General. The Trust issued, and has outstanding, $100 million of 9% Trust Originated Preferred SecuritiesSM (the "Preferred Securities") which represent preferred undivided beneficial interests in the Trust. The Junior Subordinated Debentures are subordinate and junior to all senior indebtedness of Fremont General. Payment of distributions out of cash held by the Trust, and payments on liquidation of the Trust or the redemption of the Preferred Securities are guaranteed by Fremont General to the extent that the Trust has funds available to make such payments.

Under FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities," Fremont General is not considered the primary beneficiary of the Trust. Therefore, instead of the Preferred Securities, the Junior Subordinated Debentures are reflected on the Company's balance sheets.

NOTE 15: 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 Federal Deposit Insurance Corporation, Federal Home Loan Bank ("FHLB") advances, Federal Reserve and warehouse lines of credit in funding its operations.

As of September 30, 2006, the weighted-average interest rate for savings and money market deposit accounts was 3.81% and for certificates of deposit it was 5.10%. The weighted-average interest rate for all deposits at September 30, 2006 was 4.89%.

Certificates of deposit as of September 30, 2006 are detailed by maturity and rates as follows:

AMOUNT (THOUSANDS OF DOLLARS)	MATURING BY SEPTEMBER 30,	WEIGHTED AVERAGE RATE
$ 7,911,463	2007	5.09%
45,705	2008	4.88%
57,400	2009	5.77%
1,893	2010	4.43%
8,910	2011	5.30%
$ 8,025,371		5.10%

Of the $8.03 billion in total certificates of deposit outstanding at September 30, 2006, $1.26 billion were obtained through brokers.

Interest expense on deposits is summarized as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2006	2005
		(THOUSANDS
Savings and money market deposit accounts	$ 15,917	$ 11,910
Certificates of deposit	97,973	58,486
Penalties for early withdrawal	(186)	(131)
	$ 113,704	$ 70,265

Total interest payments on deposits were $114.8 million and $71.0 million, for the three months ended September 30, 2006 and 2005, respectively, and $305.1 million and $179.4 million for the nine months ended September 30, 2006 and 2005, respectively.

FIL is a member of the FHLB system and, as such, maintains a credit line with the FHLB of San Francisco that is based upon a percentage of its total regulatory assets, subject to collateralization requirements and certain collateral sub-limits. Advances are primarily collateralized by residential loans held for sale, and to a lesser extent, by certain commercial loans held for investment. The maximum amount of credit which the FHLB will extend varies from time to time in accordance with their policies. FIL's maximum financing availability, based upon its level of regulatory assets and subject to the amount and type of collateral pledged and their respective advance rates, was $4.96 billion as of September 30, 2006. At September 30, 2006 and December 31, 2005, FIL had an approximate maximum borrowing capacity based upon its pledged loan collateral of $3.01 billion and $1.99 billion, respectively, with outstanding borrowings of $1.23 billion and $949.0 million, respectively, from the FHLB of San Francisco. All borrowings mature within one year. FIL pledged loans with a carrying value of $3.38 billion and $2.22 billion at September 30, 2006 and December 31, 2005, respectively, to secure the current and any future borrowings. FIL's borrowing capacity can be used to borrow under various FHLB loan programs, including adjustable and fixed-rate financing, for periods ranging from one day to 30 years, with a variety of interest rate structures available. The weighted-average interest rate on the amount outstanding at September 30, 2006 was 5.17%. The borrowing capacity has no commitment fees or cost, requires minimum levels of investment in FHLB stock (FIL receives dividend income on its investment in FHLB stock), can be withdrawn by the FHLB if there is any significant change in the financial or operating condition of FIL and is conditional upon FIL's compliance with certain agreements covering advances, collateral maintenance, eligibility and documentation requirements. At September 30, 2006 and December 31, 2005, FIL was in compliance with all requirements of its FHLB credit facility.

Total interest payments on advances from the FHLB were $23.0 million and $10.4 million, for the three months ended September 30, 2006 and 2005, respectively, and $81.5 million and $30.1 million for the nine months ended September 30, 2006 and 2005, respectively.

FIL has a line of credit with the Federal Reserve Bank of San Francisco ("Federal Reserve") and, at September 30, 2006 and December 31, 2005, had a borrowing capacity, based upon collateral pledged, of $297.7 million and $442.3 million, respectively, with no outstanding borrowings at September 30, 2006 or December 31, 2005. FIL pledged loans with a carrying value of $397.0 million and $589.7 million at September 30, 2006 and December 31, 2005, respectively, to the Federal Reserve. This line of credit may

be utilized when all other sources of funds are not reasonably available and any such advances are made with the expectation that they will be repaid when the availability of the usual source of funds is restored, usually the next business day.

FIL has established four separate warehouse lines of credit to facilitate the funding of residential real estate loans prior to their sale or securitization. The total funding capacity available at September 30, 2006 under the four facilities was $3.00 billion, of which $2.25 billion was committed. There were no amounts outstanding on any of the facilities at September 30, 2006. Borrowings, if any, under each of the facilities are secured by loans held for sale as pledged by FIL. Each of the facilities is subject to certain conditions, including, but not limited to, financial and other covenants including the maintenance of certain capital and liquidity levels. At September 30, 2006, FIL was in compliance with all financial and other covenants related to these facilities. The four facilities are summarized as follows:

- $1 billion master repurchase facility ($500 million committed) with Goldman Sachs Mortgage Company expiring in February 2007, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

- $1 billion master loan and security facility ($1 billion committed) with Greenwich Capital Financial Products expiring in September 2007, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

- $500 million master repurchase facility ($500 million committed) with Credit Suisse expiring in August 2007, secured by certain residential real estate loans held for sale, interest at overnight LIBOR plus a margin of 0.35%.

- $500 million master repurchase facility ($250 million committed) with Lehman Brothers Bank expiring in December 2006, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

NOTE 16: OTHER ASSETS AND LIABILITIES

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF
OTHER ASSETS	
Servicing advances	$ 55,936
Assets held in SERP	32,008
Prepaid expenses	13,902
CRA related investments and loans	10,852
Eurodollar margin account	10,281

Funds due from loans not boarded	3,211
Goodwill	2,685
Interest rate cap contract	-
Other	8,902
Total other assets	$ 137,777

	SEPTEMBER 30, 2006
	(THOUSANDS OF
OTHER LIABILITIES	
Deferred compensation obligation	$ 48,949
Loan repurchase reserve	34,192
Accrued incentive compensation	29,792
Borrower escrow collections payable	28,187
Federal and state(s) income tax liability	25,816
Accounts payable	25,030
Accrued interest payable	24,333
Borrower principal and interest due investors	16,651
Accrued ESOP expense	13,052
Forward sales commitments (derivative mark)	5,335
Premium repurchase reserve	3,670
Premium recapture reserve	2,663
Other	30,289
Total other liabilities	$ 287,959

36

NOTE 17: 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. Awards were granted under the Company's stockholder approved 1997 Stock Plan (the "1997 Plan") until May 18, 2006 when the stockholders approved the 2006 Plan. Effective as of May 18, 2006, no additional grants will be made under the 1997 Plan. At September 30, 2006, a total of 17,822 restricted shares of the Company's common stock were subject to outstanding awards granted and an additional 8,808,213 shares of the Company's common stock were available for new award grants under the 2006 Plan. At September 30, 2006, a total of 1,755,413 restricted shares of the Company's common stock were subject to outstanding awards granted under the 1997 Plan. As of September 30, 2006, 2,867,399, shares that had been available for awards under the 1997 Plan now are available for award grant purposes under the 2006 Plan. As awards outstanding under the 1997 Plan are cancelled, forfeited, or otherwise terminate without having been exercised or having vested, they will become available for award grant purposes under the 2006 Plan. During the first nine months of 2006 there were awards of 388,379 shares of restricted stock under the 1997 Plan, and awards of 17,822 shares of restricted stock under the 2006 Plan.

The Company also maintains the 1995 Restricted Stock Award Plan (the "1995 Plan"), which expired under its terms in November 2005. As of September 30, 2006, there were 105,950 restricted shares of the Company's common stock subject to outstanding awards granted. There are no shares available for grant under the 1995 Plan.

Prior to January 1, 2006, the Company accounted for stock awards granted under the 1997 Plan and 1995 Plan under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations ("APB No. 25"), as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation." Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), using the modified prospective transition method therefore results for prior periods have not been restated. The primary impact of adopting SFAS No. 123(R) on the Company's financial statements was the reclassification of the deferred compensation balance, as of December 31, 2005 ($20.9 million) related to its nonvested restricted shares to additional paid-in capital.

STOCK OPTIONS:

The Company also maintains the Amended 1989 Non-Qualified Stock Option Plan (the "1989 Plan"). 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. Stock option grants were accounted for in accordance with the intrinsic value method and, accordingly, no compensation expense was recognized. For the applicable years, additional disclosure was provided regarding the pro forma effects on earnings per share calculated as if the recognition and measurements provisions of the fair value method had been adopted. The Company had 468,000 non-qualified option shares outstanding and exercisable as of September 30, 2006, with an intrinsic value of $7.0 million, an exercise price of $14.94 and an expiration date of February 13, 2007. No options were granted, forfeited, expired or exercised during the first nine months of 2006. Shares issued upon option exercise may come from new shares or existing shares held in the Company's employee benefits trust. There are no shares available for grant under the 1989 Plan. (See Note 18)

RESTRICTED STOCK AWARDS:

Under both APB No. 25 and SFAS No. 123(R), 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 $3.3 million and $3.9 million for the three months ended September 30, 2006 and 2005, respectively, and $9.8 million and $12.1 million for the nine months ended September 30, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $636,000 and $468,000 for the three months ended September 30, 2006 and 2005, respectively, and $1.9 million and $1.6 million for the nine months ended

September 30, 2006 and 2005, respectively.

Prior to the adoption of SFAS No. 123(R), the Company reported all cash flows resulting from the tax benefits associated with tax deductions in excess of the compensation expense recognized for restricted stock awards as operating cash flows in the Consolidated Statement of Cash Flows. Under SFAS No. 123(R) the Company now reports such excess tax benefits as financing cash inflows.

Under the Company's Executive Officer Annual Bonus Plan, which is stockholder-approved, for the one-year period beginning January 1, 2006 through December 31, 2006 (the "2006 Annual Plan") the Company may grant selected officers awards of restricted shares of Company common stock upon

achievement of certain predetermined pre-tax earnings targets for the 2006 calendar year. At the end of the one-year performance period, upon determination of the extent to which the 2006 pre-tax earnings targets have been achieved, participants under the 2006 Annual Plan will be paid bonuses in the form of cash, at 100% of the amount of the cash bonus earned, plus an award of shares of restricted common stock equal to 100% of the amount of the cash bonus earned in accordance with the 2006 Annual Plan. The award of shares of restricted common stock would be made pursuant to the 2006 Plan. If such earnings targets are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. As a result of adopting SFAS No. 123(R), the Company accounts for these awards as liability instruments where the service period precedes the grant date. No restricted stock awards were granted under the 2006 Annual Plan during the first nine months of 2006.

A summary of the status of the Company's nonvested restricted stock awards as of September 30, 2006 and changes during the nine month period then ended is presented below:

	NUMBER OF SHARES
Nonvested at December 31, 2005	2,959,053
Granted	406,201
Vested	(1,444,705)
Forfeited	(41,364)
Nonvested at September 30, 2006	1,879,185

The fair value of nonvested shares is determined based on the closing trade price of the Company's shares on the grant date as determined in accordance with the 1997 Plan and/or the 2006 Plan. As of September 30, 2006, there was $18.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.8 years. The weighted-average grant date fair value of the restricted stock awards granted during the nine months ended September 30, 2006 and 2005 was $22.57 and $23.05, respectively. The total fair value of shares vested was $33.6 million and $31.6 million for the nine months ended September 30, 2006 and 2005, respectively.

Awards of restricted common stock include dividend rights and non-preferential dividends are paid on nonvested restricted shares of Company common stock. Dividends declared on restricted stock awards granted are not subject to vesting. Outstanding nonvested restricted shares of Company common stock

39

are generally subject to accelerated vesting if there is a change in control of the Company (as defined in the restricted stock award agreements or Employment or Management Continuity Agreements, if applicable).

NOTE 18: 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 consolidates the GSOP under the provisions of Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities." The GSOP uses the contributed cash to acquire shares of the Company's common stock and the shares held by the GSOP are recorded at fair value and treated as treasury stock for purposes of calculating the Company's basic and diluted earnings per share.

The Company also maintains a Supplemental Executive Retirement Plan ("SERP") and Excess Benefit Plan ("EBP"); both of which are deferred compensation plans designed to provide certain employees the ability to receive benefits that would be otherwise lost under the Company's qualified retirement plans due to statutory or other limits on salary deferral and matching contributions. Assets held in the SERP and EBP include both Company stock as well as other mutual funds. Changes in the fair value of the Company's stock are included as part of the deferred compensation obligation component of other liabilities with a corresponding charge (or credit) to compensation expense. Changes in the fair value of the mutual funds are recorded as part of both other assets and deferred compensation obligation with corresponding charges (or credits) to other income and compensation expense, respectively. These offsetting charges and credits due to the changes in fair value of the mutual fund assets result in no net impact on income.

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF
SERP and EBP	$ 18,549
GSOP	3,590
Unamortized restricted stock awards	-
Total deferred compensation	$ 22,139

Under the provisions of SFAS No. 123(R), which the Company adopted as of January 1, 2006, companies may no longer account for unrecognized compensation costs related to nonvested stock awards as deferred compensation. SFAS No. 123(R) requires that any existing balance of deferred compensation

as of the adoption date be reclassified to additional paid-in capital. Because the Company adopted SFAS No. 123(R) on the modified prospective basis, results from prior periods have not been restated to conform to the current presentation. (See Note 17)

NOTE 19: 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. Banking institutions that are experiencing or anticipating significant growth are generally expected to maintain capital ratios above minimum levels.

As of September 30, 2006, FIL's regulatory capital exceeded all minimum requirements to which it is subject and the most recent notification from the FDIC categorized FIL as "well-capitalized". To be categorized as well-capitalized, the institution must maintain capital ratios as set forth in the following table. There have been no conditions or events since that notification that management believes have changed FIL's categorization as well-capitalized. FIL's actual regulatory amounts and ratios and the related standard regulatory minimum ratios required to qualify as well-capitalized are detailed in the table below.

	SEPTEMBER 30, 2006			
	ACTUAL		MINIMUM REQUIRED	
	AMOUNT	RATIO	AMOUNT	RATIO
	(THOUSANDS OF DOLLARS, EXCEPT PERCENTS)			
Tier-1 Leverage Capital	$ 1,602,316	12.03%	$ 666,080	5.00%
Risk-Based Capital:				
Tier-1	1,602,316	12.65%	759,754	6.00%
Total	1,763,279	13.93%	1,266,256	10.00%

	DECEMBER 31, 2005			
	ACTUAL		MINIMUM REQUIRED	
	AMOUNT	RATIO	AMOUNT	RATIO
	(THOUSANDS OF DOLLARS, EXCEPT PERCENTS)			
Tier-1 Leverage Capital	$ 1,549,685	12.59%	$ 615,462	5.00%
Risk-Based Capital:				
Tier-1	1,549,685	14.15%	657,156	6.00%
Total	1,699,420	15.52%	1,095,261	10.00%

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

During the third quarter of 2005, the Company identified that its interpretation for the calculation of risk-weighted assets was not complete. Previously, the Company had not incorporated the unfunded portion of its commercial real estate loan commitments into its risk-weighted assets calculation. As of September 30, 2006, and for all prior periods presented, the Company has included the risk-weighted effect of these unfunded commitments into its Tier-1 Risk-Based and Total Risk-Based Capital ratios. Included in these unfunded commitments are amounts for loan transactions for which the unfunded portion is not currently available to the borrower based upon the level of progress of the underlying commercial real estate project. The impact upon the Tier-1 Risk-Based and Total Risk-Based Capital ratios in prior periods did not change FIL's categorization as well-capitalized and there is no impact upon the Tier-1 Leverage ratio.

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

	SEPTEMBER 30, 2006
	(THOUSANDS OF
Common stockholder's equity at FIL	$ 1,607,568

Less:	
Disallowed portion of mortgage servicing rights	(3,013)
Unrealized gains on available-for-sale securities	(2,239)
Total Tier-1 Capital	1,602,316
Add:	
Allowable portion of the allowance for loan losses	160,963
Total Risk-Based Capital (Tier-1 and Tier-2)	$ 1,763,279

NOTE 20: 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. Management expects that it may exercise its clean-up call option. The loans acquired via the clean-up call may be then either sold or put into the Company's loan portfolio. While it is expected that most loans acquired in a clean-up call can be sold for gains or retained as attractive portfolio investments, a portion of the loans are expected to be non-performing and thus, it is possible that non-performing loans may increase temporarily between the time of the call exercise and the disposition of the loans.

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

FREMONT INDEMNITY COMPANY (IN LIQUIDATION) V. FREMONT GENERAL CORPORATION ET AL.:

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

On January 25, 2005, Fremont General's motions to dismiss the lawsuit brought by the Commissioner, on behalf of Fremont Indemnity, against Fremont

General were argued and heard before the Superior Court of the State of California (the "Court"). On January 26, 2005, the Court issued its rulings dismissing all the causes of action in the FAC without leave to amend, except for the cause of action for alleged concealment by Fremont General of a potential reinsurance dispute, which was dismissed with leave to amend. The Court also found that Fremont General had properly utilized the NOLs in accordance

with the Letter Agreement. In addition, the Court rejected the Commissioner's request for findings that Fremont General'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 Fremont General 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 Fremont General alleging intentional misrepresentation, concealment and promissory fraud, which induced the Commissioner to first enter into the Letter Agreement. On July 15, 2005, the Court dismissed the SAC with 20 days leave to amend. On August 4, 2005, the Commissioner filed a Third Amended Complaint ("TAC") again alleging intentional misrepresentation, concealment and promissory fraud.

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

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

GERLING GLOBAL REINSURANCE CORPORATION OF AMERICA V. FREMONT GENERAL CORPORATION ET AL.:

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

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

In January 2006, Gerling filed a Second Amended Complaint ("SAC") alleging 1) Fraud/Intentional Misrepresentation and Concealment; 2) Breach of Fiduciary Duty and Duty of Utmost Good Faith; 3) Unjust Enrichment; and 4) Breach of Contract. On March 6, 2006, 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. The Company continues to believe that this lawsuit is without merit.

GARAMENDI 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

45

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 Company intends to vigorously defend this matter and believes the lawsuit is without merit.

NOTE 21: OPERATIONS BY REPORTABLE SEGMENT

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

The Commercial Real Estate segment originates its commercial real estate loans, which are primarily bridge and construction facilities, on a nationwide basis. These loans, which are held for investment, generate net interest income on the difference between the rates charged on the loans and the cost of borrowed funds.

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

Management measures and evaluates each of these segments based on total revenues generated, net interest income and pre-tax operating results. The results of operations include certain allocated corporate expenses as well as interest expense charged back to the segments for the use of funds generated by the Company's corporate and retail banking operations. Interest expense is allocated among the residential and commercial segments using LIBOR rates matched to the terms of the respective underlying loans plus a spread to cover the expenses of the retail banking operations.

Certain expenses that are centrally managed at the corporate level such as provision for income taxes and other general corporate expenses are excluded from the measure of segment profitability reviewed by management. 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. Historical periods have been restated to conform to this presentation.

46

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

	RESIDENTIAL REAL ESTATE	COMMERCIAL REAL ESTATE	CORPORATE A RETAIL BANK
			(THOUSANDS OF DO
Three months ended September 30, 2006			
Net interest income	$ 57,426	$ 70,819	$ 20,
Provision for loan losses	-	(12,687)	
Net gain (loss) on whole loan sales and securitizations of residential real estate loans .	(9,622)	-	
Loan servicing income	26,427	-	

Mortgage servicing rights amortization and impairment provision	(12,975)	-	
Impairment on residual assets	-	-	
Other non-interest income	1,089	4,552	
Compensation	(30,944)	(8,217)	(15,
Occupancy	(4,876)	(791)	(2,
Other non-interest expense	(17,296)	(2,307)	(16,
Allocations	(19,272)	(1,258)	20,
Income (loss) before income taxes	$ (10,043)	$ 50,111	$ 6,
Total revenues	$ 148,615	$ 148,861	$ 275,
Total consolidated assets	$ 5,793,576	$ 6,007,482	$ 1,001,
Three months ended September 30, 2005			
Net interest income	$ 60,847	$ 45,812	$ 13,
Provision for loan losses	5	4,077	
Net gain on whole loan sales and securitizations of residential real estate loans	116,044	-	
Loan servicing income	20,155	-	
Mortgage servicing rights amortization and impairment provision	(6,588)	-	
Impairment on residual assets	-	-	
Other non-interest income	1,008	3,279	
Compensation	(26,809)	(11,473)	(23,
Occupancy	(4,242)	(789)	(2,
Other non-interest expense	(11,433)	(5,871)	(16,
Allocations	(13,182)	(890)	14,
Income (loss) before income taxes	$ 135,805	$ 34,145	$ (13,
Total revenues	$ 249,544	$ 84,520	$ 86,
Total consolidated assets	$ 5,819,746	$ 4,000,487	$ 1,181,

	RESIDENTIAL REAL ESTATE	COMMERCIAL REAL ESTATE	CORPORATE A RETAIL BANK
		(THOUSANDS OF DOL	
Nine months ended September 30, 2006			
Net interest income	$ 220,012	$ 194,923	$ 53,2
Provision for loan losses	4	(28,284)	

Net gain (loss) on whole loan sales and securitizations of residential real estate loans .	(16,424)	-	
Loan servicing income	71,258	-	
Mortgage servicing rights amortization and impairment provision	(29,878)	-	
Impairment on residual assets	(5,752)	-	
Other non-interest income	3,335	10,293	8
Compensation	(95,323)	(21,711)	(54,6
Occupancy	(13,823)	(2,248)	(7,9
Other non-interest expense	(43,557)	(1,758)	(46,5
Allocations	(59,905)	(3,769)	63,6
Income (loss) before income taxes	$ 29,947	$ 147,446	$ 8,6
Total revenues	$ 504,641	$ 390,659	$ 473,9
Total consolidated assets	$ 5,793,576	$ 6,007,482	$ 1,001,6

Nine months ended September 30, 2005			
Net interest income	$ 202,535	$ 132,680	$ 31,8
Provision for loan losses	6	7,250	
Net gain on whole loan sales and securitizations of residential real estate loans	316,368	-	
Loan servicing income	49,841	-	
Mortgage servicing rights amortization and impairment provision	(16,299)	-	
Impairment on residual assets	(1,790)	-	
Other non-interest income	2,782	11,058	7
Compensation	(87,285)	(24,034)	(65,4
Occupancy	(12,453)	(2,300)	(6,5
Other non-interest expense	(34,195)	(6,914)	(40,5
Allocations	(34,728)	(3,024)	37,7
Income (loss) before income taxes	$ 384,782	$ 114,716	$ (42,2
Total revenues	$ 711,095	$ 235,148	$ 223,7
Total consolidated assets	$ 5,819,746	$ 4,000,487	$ 1,181,1

NOTE 22: EARNINGS PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30, 2006	2005
	(THOUSANDS OF SHARES AND DOL	
Net income (numerator for basic earnings per share)	$ 29,525	$ 92,565
Effect of dilutive securities:		
LYONs	-	-
Net income available to common stockholders after assumed conversions (numerator for diluted earnings per share)	$ 29,525	$ 92,565
Weighted-average shares (denominator for basic earnings per share)	74,498	72,962
Effect of dilutive securities using the treasury stock method for restricted stock and stock options:		
Employee benefit plans	1,221	1,154
Restricted stock	366	1,311
Stock options	16	101
LYONs	-	-
Dilutive potential common shares	1,603	2,566
Adjusted weighted-average shares and assumed conversions (denominator for diluted earnings per share)	76,101	75,528
Basic earnings per share	$ 0.40	$ 1.27
Diluted earnings per share	$ 0.39	$ 1.23

For additional disclosures regarding stock options and restricted stock see Note 17.

49

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") is a holding company which is engaged in lending operations through its indirectly wholly-owned subsidiary, Fremont Investment & Loan ("FIL"). FIL is an industrial bank. Fremont General is not a "bank holding company" as defined for regulatory purposes.

FIL has two primary real estate lending operations, commercial and residential, both operating on a nationwide basis. FIL's commercial real estate lending operation includes nine regional offices and, as of September 30, 2006, had loans outstanding in 29 states. The residential real estate lending platform originated loans from 47 states through its five regional loan production centers as of September 30, 2006. FIL funds its lending operations primarily through deposit accounts sourced in California that are insured up to the maximum legal limit by the Federal Deposit Insurance Corporation ("FDIC") and, to a lesser extent, advances from the Federal Home Loan Bank ("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. FIL will also utilize its warehouse lines of credit from time to time to fund part of its residential real estate loan production.

FIL's residential real estate lending operation originates first, and to a lesser degree, second mortgage loans on a wholesale basis through a network of independent mortgage brokers. FIL offers mortgage products that are designed for borrowers who do not generally satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) and are commonly referred to as "non-prime" or "sub-prime". These borrowers generally have equity in the properties securing their loans, but have impaired or limited credit profiles or higher debt-to-income ratios than conventional mortgage lenders allow. The borrowers also include individuals who, due to self-employment or other circumstances, have difficulty documenting their income through conventional means. FIL seeks to mitigate its exposure to credit risk through underwriting standards that strive to balance appropriate loan to collateral valuations with a borrower's credit profile. All of the residential real estate loans that FIL originates are currently either sold in whole loan sales to various financial institutions, or to a lesser extent, securitized and sold to various investors. The Company has retained some of these loans as held for investment in prior periods and may do so again in the future.

FIL's commercial real estate lending operation provides first mortgage financing on various types of commercial properties. The loans that FIL originates are substantially all held for investment, with some

50

loans participated out to limit credit exposures. Loans are originated through broker and borrower relationships and the borrowers are typically mid-size developers and owners seeking a loan structure that provides limited recourse and is short-term, providing bridge or construction financing for comprehensive construction, renovation, conversion, repositioning and lease-up of existing or new properties. To manage the credit risk involved in this lending, FIL is focused on the value and quality of the collateral and the quality and experience of the parties with whom it does business. The size of loan commitments originated generally range from $20 million to $100 million, with some loans for larger amounts.

The Company's two operating lines of business are 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. The Company strives to manage its operations so as to optimize operational efficiency and to maintain credit and market risks within acceptable parameters. The Company's lending operations generate income as follows:

- All of the residential real estate loans originated are currently sold for varying levels of gain or loss through whole loan sales to other financial institutions, and to a lesser degree, to various investors through securitization transactions. A held for sale loan valuation reserve, a loan repurchase reserve and a premium recapture reserve are maintained and adjusted through provisions (which are either an expense or a credit to income) that are recognized in the consolidated statements of income. Net interest income is recognized on these loans during the period that the Company holds them for sale. The Company also recognizes interest income on the residual interests it retains from its securitization transactions. Servicing income is realized on the loans sold into the Company's securitizations and on whole loan sales when servicing is retained, as well as on an interim basis for loans sold on a servicing released basis to other financial institutions. When servicing is retained either through a securitization or a whole loan sale with servicing retained, a mortgage servicing rights ("MSR") asset is typically established; the MSR is amortized to expense over the expected life of the related servicing income.

- Commercial real estate loans, which are held for investment, generate net interest income on the difference between the rates charged on the loans and the cost of borrowed funds. The majority of commercial real estate loans originated are adjustable interest rate loans based upon either one, three and six-month LIBOR and an applicable margin. An allowance for loan losses is maintained through provisions (which are either an expense or a credit to income) that are recognized in the consolidated statements of income.

The principal market risks the Company faces are interest rate risk and liquidity risk. Interest rate risk is the risk that the valuation of the Company's interest sensitive assets and liabilities and its net interest income will change due to changes in interest rates. Liquidity risk, which is the ability of the Company to access the necessary funding and capital resources, in a cost-effective manner, to fund its loan originations or to sell its loans held for sale. Liquidity risk also entails the risk of changes in secondary market

conditions, which can negatively impact the pricing realized by the Company on the loans it sells or securitizes. The Company endeavors to mitigate interest rate risk by attempting to match the rate reset (or repricing) characteristics of its assets with its liabilities. The Company utilizes forward loan sale commitments to lock in liquidity execution and to hedge its loans held for sale. The Company also utilizes Eurodollar futures to hedge the interest rate risk on a portion of its loan pipeline and its loans held for sale. Residential and commercial mortgage lending requires significant cash to fund loan originations; the Company strives to maintain certain liquidity levels, both in available funds and in funding capacity, to ensure its ability to meet its funding objectives without constraint. The Company is dependent upon the securitization market for the sale of its residential real estate loans as it either securitizes the loans directly or many of its whole loan buyers purchase the loans with the intent to securitize. The secondary or securitization market is dependent upon many factors that can change the demand and thus impact the pricing the Company realizes on the sale of its residential real estate loans. The level of demand and general market conditions in the secondary market can significantly effect the level of gain or loss realized by the Company on the sale of these loans. The objective of the interest rate and liquidity risk management activities is to reduce the risk of operational disruption and to reduce the volatility in income caused by changes in interest rates and market conditions; however, the mortgage banking industry is inherently subject to income volatility due to the effect of interest rate variations on loan production volume, loan credit quality, premiums realized on loan sales and securitizations, and loan prepayment patterns, which in turn affects the valuation of the Company's loans held for sale, residual interests and MSRs, as well as the amount of loan servicing income realized.

This discussion and analysis should be read in conjunction with the 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, 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Company has identified four accounting policies as being critical because they require more significant judgment and estimates about matters that may differ from the estimates determined under different assumptions or conditions. These critical accounting policies relate to the gain or loss on whole

52

loan sales and securitizations, allowance for loan losses, derivatives and income taxes. The 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, 2005.

EARNINGS PERFORMANCE

The Company reported income before income taxes of $46.7 million for the third quarter of 2006 as compared to $156.0 million for the third quarter of 2005. For the first nine months of 2006 income before income taxes totaled $186.0 million as compared to $457.2 million for the first nine months of 2005. The decrease in income before income taxes for the third quarter and first nine months of 2006 represent decreases of 70.1% and 59.3% over the results for the third quarter and first nine months of 2005, respectively.

The decrease in income during the third quarter of 2006, as compared to the third quarter of 2005, is primarily a result of the Company recognizing a loss on the sale and securitization of its residential real estate loans during the third quarter of 2006 of $9.6 million; in comparison, the Company recognized a gain of $116.0 million during the third quarter of 2005. The loss is primarily a result of higher provisions for loan valuation, repurchase and premium recapture reserves and a derivative loss during the third quarter of 2006 (of $20.4 million) versus a gain during the third quarter of 2005 (of $24.2 million). The provisions for loan valuation, repurchase and premium recapture reserves for the third quarter of 2006 totaled $76.3 million, as compared to $13.5 million for the third quarter of 2005. This was partially offset by an increased level of net interest income during the third quarter of 2006.

The decrease in income during the first nine months of 2006, as compared to the first nine months of 2005, is primarily a result of the Company recognizing a loss on the sale and securitization of its residential real estate loans during the first nine months of 2006 of $16.4 million; in comparison, the Company recognized a gain of $316.4 million during the first nine months of 2005. The loss is primarily a result of an increased provision for loan valuation, repurchase and premium recapture reserves during the first nine months of 2006 of $250.7 million versus a provision totaling $59.3 million during the first nine months of 2005. The loss was also impacted by lower levels of gross premium being realized on the sale and securitization of the residential real estate loans during the first nine months of 2006. This was partially offset by an increased level of net interest income during the first nine months of 2006.

The Company reported net income of $29.5 million for the third quarter of 2006. This is compared to net income of $92.6 million for the third quarter of 2005. For the first nine months of 2006, net income totaled $113.1 million, as compared to $273.4 million for the first nine months of 2005.

NET INTEREST INCOME

The Company recorded net interest income for the third quarter and first nine months of 2006 of $148.8 million and $468.2 million as compared to $120.3 million and $367.1 million for the third quarter and first nine months of 2005, respectively. The increase in net interest income for both periods in 2006 is primarily a result of an increase in the level of average interest-earning assets. Total average interest-earning assets increased to $13.3 billion and $13.4 billion during the third quarter and first nine months of 2006, as compared to $11.0 billion for both the third quarter and first nine months of 2005. These increases are primarily the result of significantly higher levels of outstanding commercial real estate loans held for investment. To a lesser degree, the average amounts outstanding of residential real estate loans held for sale and retained residual interests also increased during the respective periods of 2006 as compared to 2005. The net interest income margin as a percentage of average interest-earning assets increased to an annualized 4.67% for the first nine months of 2006 from 4.47% for the first nine months of 2005; for the third quarter of 2006, the percentage was 4.45%, up from 4.34% for the third quarter of 2005. Net interest income is impacted by the volume, mix and rate of interest-earning assets and interest-bearing liabilities.

The following tables identify the consolidated interest income, interest expense, average interest-earning assets and interest-bearing liabilities, and net interest margins, as well as an analysis of changes in net interest income due to volume and rate changes, for the third quarter and first nine months of 2006 and 2005:

	THREE MONTHS ENDED SEPTEMBER			
	2006			
	AVERAGE BALANCE	INTEREST	YIELD/ COST	AVER BALA
	(THOUSANDS OF DOLLARS, EXCEPT P			
Interest-earning assets (1):				
Commercial real estate loans	$ 6,059,445	$ 144,306	9.45%	$ 3,93
Residential real estate loans (2)	6,519,702	135,432	8.24%	6,20
Residual interests in securitized loans	121,274	8,945	29.26%	3
Cash equivalents and investment securities	568,547	8,883	6.20%	82
Total interest-earning assets	$ 13,268,968	$ 297,566	8.90%	$ 10,99
Interest-bearing liabilities:				
Time deposits	$ 7,865,020	$ 99,037	5.00%	$ 6,53
Savings deposits	1,536,547	14,667	3.79%	1,61
FHLB advances	2,053,337	26,876	5.19%	1,35
Warehouse lines of credit	115,286	2,301	7.92%	5
Senior Notes due 2009	168,323	3,388	8.05%	18
LYONs	-	-	0.00%	
Junior Subordinated Debentures	103,093	2,320	9.00%	10
Other	25,064	136	2.15%	3
Total interest-bearing liabilities	$ 11,866,670	$ 148,725	4.97%	$ 9,87
Net interest income		$ 148,841		
Percent of average interest-earning assets:				
Interest income			8.90%	
Interest expense			4.45%	
Net interest margin			4.45%	

55

	NINE MONTHS ENDED SEPTEM			
	2006			
	AVERAGE BALANCE	INTEREST	YIELD/ COST	AVERA BALAN
	(THOUSANDS OF DOLLARS, EXCEPT P			

Interest-earning assets (1):				
Commercial real estate loans	$ 5,554,367	$ 380,365	9.16%	$ 3,80
Residential real estate loans (2)	7,172,012	443,136	8.26%	6,46
Residual interests in securitized loans	108,656	41,706	51.32%	2
Cash equivalents and investment securities	586,274	22,837	5.21%	70
Total interest-earning assets	$ 13,421,309	$ 888,044	8.85%	$ 10,99
Interest-bearing liabilities:				
Time deposits	$ 7,791,367	$ 267,873	4.60%	$ 6,31
Savings deposits	1,545,762	42,901	3.71%	1,66
FHLB advances	2,272,447	82,471	4.85%	1,50
Warehouse lines of credit	175,072	8,860	6.77%	9
Senior Notes due 2009	172,137	10,398	8.05%	18
LYONs	-	-	-	
Junior Subordinated Debentures	103,093	6,959	9.00%	10
Other	24,159	386	2.14%	2
Total interest-bearing liabilities	$ 12,084,037	$ 419,848	4.65%	$ 9,90
Net interest income		$ 468,196		
Percent of average interest-earning assets:				
Interest income			8.85%	
Interest expense			4.18%	
Net interest margin			4.67%	

	THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO 2005			
	CHANGE DUE TO			
	VOLUME(1)	RATE	TOTAL	VOLU
			(THOUSANDS OF DOL	
Cash equivalent and investment securities	$ (3,056)	$ 4,094	$ 1,038	$ (
Loans and residual interests	63,564	24,950	88,514	19
Total increase in interest income	60,508	29,044	89,552	19
Time deposits	(16,721)	(23,932)	(40,653)	(5
Savings deposits	732	(3,518)	(2,786)	
FHLB advances	(9,185)	(7,280)	(16,465)	(2

Warehouse lines of credit	(1,106)	(266)	(1,372)	(
Senior Notes due 2004 and 2009	262	-	262	
LYONs	-	-	-	
Junior Subordinated Debentures	-	-	-	
Other	27	(72)	(45)	
Total (increase) in interest expense	(25,991)	(35,068)	(61,059)	(7
Increase / (decrease) in net interest income	$ 34,517	$ (6,024)	$ 28,493	$ 11

NON-INTEREST INCOME

GAIN OR LOSS ON WHOLE LOAN SALES AND SECURITIZATIONS OF RESIDENTIAL REAL ESTATE LOANS

The gain on sale of residential real estate loans decreased from $116.0 million in the third quarter of 2005 to a $9.6 million loss for the third quarter of 2006. For the first nine months of 2006, the Company realized a $16.4 million loss on the sale of its residential real estate loans as compared to a $316.4 million gain for the first nine months of 2005. The loss on sale during the first nine months of 2006 is primarily attributable to significantly higher provisions for loan valuation, repurchase and premium recapture reserves. In addition, the Company realized a decrease in the gross premiums received on loan sales, particularly in the first quarter of 2006, and a loss on derivatives for the first nine months of 2006 of $4.2 million, as compared to a gain of $15.8 million during the first nine months of 2005. The provisions for loan valuation, repurchase and premium recapture reserves for the first nine months of 2006 totaled $250.7 million, as compared to $59.3 million for the first nine months of 2005.

The loss on sale during the third quarter of 2006 is primarily attributable to significantly higher provisions for loan valuation, repurchase and premium recapture reserves and a hedging loss of $20.4 million. The provisions for loan valuation, repurchase and premium recapture reserves for the third quarter of 2006 totaled $76.3 million, as compared to $13.5 million for the third quarter of 2005.

The increased provisions for loan valuation, repurchase and premium recapture reserves is primarily due to increased loan repurchase and re-pricing trends from previous whole loan sale transactions and lower secondary market values for second mortgages. These increased loan repurchase and re-pricing levels, which have been noted industry-wide, are primarily due to increased levels of early payment delinquencies during 2006 and a greater incidence of repurchase requests from whole loan purchasers. The Company's loan repurchases and re-pricings increased to $345.7 million and $691.8 million for the third quarter and first nine months of 2006, respectively, as compared to $126.7 million and $270.5 million for the third quarter and first nine months of 2005, respectively. The Company continually evaluates the loss severity and repurchase frequency estimates utilized for its loan valuation, repurchase and premium recapture reserves based upon its analysis of historical and current data and the mix of loan characteristics.

Given these loan repurchase and re-pricing trends, with an objective of reducing its early payment delinquencies, the Company made modifications in its loan origination parameters during the second quarter of 2006, including eliminating or reducing certain higher loan-to-value products (including certain second mortgage products) and lower FICO bands. The Company has seen positive initial results based upon its third quarter loan production profile; these positive results include lower second mortgage loan production, higher FICO scores, less first time home buyer loans, and lower stated-income documentation loans. For instance, the Company has eliminated its "combo" loans (a first mortgage originated in combination with a second mortgage) on stated-income documentation loans with FICO scores below 640. The Company also modified its whole loan sale agreements to limit the notification period for repurchase requests (generally a buyer has a window of 90 days from the completion of the sale to notify the Company of any qualifying loans that it is requesting to be repurchased) and to extend the qualifying first payment measurement period (the period has been moved to 45 days from 30 days - thus a payment is not considered delinquent through and up to 45 days). While it is too soon for the Company to quantify the level of improvement on its provisioning, if any, the Company believes that it is reasonable to expect to see a positive impact of these changes during the the first quarter of 2007.

A total of $8.2 billion in loans were sold (including loans sold via securitization) during the third quarter of 2006, as compared to loan sales and securitizations of $9.3 billion during the third quarter of 2005. For the first nine months of 2006, a total of $25.3 billion in loans were sold (including loans sold via securitization), as compared to loan sales of $26.1 billion for the first nine months of 2005. The average gross premium on Tier 1 loan sales and securitizations during the third quarter of 2006 was 1.82% as compared to an average of 2.34% for the third quarter of 2005. For the first nine months of 2006, the average gross premium on Tier 1 loan sales and securitizations was 1.77% as compared to an average of 2.66% for the first nine months of 2005. The decrease in gross premiums during the first nine months of 2006 is primarily a result of lower interest rate margins (reflecting increased price competition in the non-prime mortgage origination market) and secondary market conditions, particularly for loans sold into the first quarter of 2006. The level of loans securitized during the third quarter of 2006 was $3.09 billion as compared to $1.03 billion for the third quarter of 2005; this higher level of securitization activity lowers the total recognized gross premium levels as the Company records a lower premium on these transactions, but

for which it does not have any loan repurchase requirements. Included in the $3.09 billion of securitizations during the third quarter of 2006 was a second mortgage only pool of approximately $287.8 million upon which the Company realized a price below par, but the Company does not have any repurchase obligation in connection with this transaction. In addition, during the third quarter of 2006, the Company sold approximately $1.06 billion of loans on a whole loan basis with a provision that a certain amount of first payment defaults would not be subject to repurchase; in exchange for this, the Company realized approximately 40 basis points less in gross premium on the transaction. The Company entered into this agreement in an effort to limit future provisions for loan valuation, repurchase and premium recapture reserves. The Company's direct costs of loan origination associated with loans sold decreased during the third quarter and first nine months of 2006 to 0.76% and 0.83%, respectively from 1.20% and 1.27% for the same periods in 2005 primarily as a result of lower costs incurred for broker and account executive compensation.

The Company realized net losses of $20.4 million and $4.2 million on the derivative instruments it utilized to hedge the impact of interest rate volatility on its residential real estate lending activities during the third quarter and first nine months of 2006, respectively. These net losses primarily resulted from a decrease in the underlying interest rate indices (primarily the two-year swap rate) which conversely had a negative impact upon the gross loan sale premiums realized during the same periods. These net losses are compared to net gains on derivatives of $24.2 million and $15.8 million during the third quarter and first nine months of 2005.

The net gain (loss) percentage (the net gain or loss after direct costs, net gains or losses on derivative instruments, provisions for premium recapture and valuation and repurchase reserves, divided by net loans sold) on these sales and securitizations decreased from 1.26% in the third quarter of 2005 to (0.13)% in the third quarter of 2006. For the first nine months of 2006 the Company realized a net loss percentage on these sales of (0.07)% as compared to a net gain percentage of 1.23% for the first nine months of 2005.

The Company's gross loan premiums, loan repurchase and valuation reserves and the gain or loss on derivative instruments have exhibited, and are expected to continue to exhibit, variability (often significant) based on various economic, credit and interest rate environments, as well as on the Company's loan sale and hedging activity levels and their timing.

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS
Gross whole loan sales (Firsts)	$ 5,084,883	$ 7,602,299
Gross whole loan sales (Seconds)	277,469	760,737
Loans sold into securitizations (Firsts)	2,620,790	993,936
Loans sold into securitizations (Seconds)	464,889	38,789
	8,448,031	9,395,761
Less: Repurchases	(294,170)	(126,676)
Total loan sales and securitizations - net of repurchases	$ 8,153,861	$ 9,269,085
Gross premium recognized on Tier I loan sales and securitizations	$ 148,536	$ 217,024
Net gain (loss) on derivative instruments	(20,402)	24,218
	128,134	241,242

Net direct loan origination costs	(61,484)	(111,712)
Provisions for valuation, repurchase and premium recapture reserves	(76,272)	(13,486)
Net gain (loss) on sale	$ (9,622)	$ 116,044
Net gain (loss) on sale	$ (9,622)	$ 116,044
Origination expenses allocated during the period of origination	(36,710)	(30,381)
Net operating gain (loss) on sale	$ (46,332)	$ 85,663
Gross premium recognized on Tier I loan sales and securitizations	1.82 %	2.34 %
Net gain (loss) on derivative instruments	(0.25)%	0.26 %
	1.57 %	2.60 %
Net direct loan origination costs	(0.76)%	(1.20)%
Provisions for valuation, repurchase and premium recapture reserves	(0.94)%	(0.14)%
Net gain (loss) on sale	(0.13)%	1.26 %
Net gain (loss) on sale	(0.13)%	1.26 %
Origination expenses allocated during the period of origination	(0.45)%	(0.33)%
Net operating gain (loss) on sale	(0.58)%	0.93 %

60

LOAN SERVICING AND OTHER NON-INTEREST INCOME

The components of the Company's loan servicing income, MSR amortization and impairment and other non-interest income for the third quarter and first nine months of 2006 and 2005 are indicated in the following table:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
		(THOUSANDS OF
Loan Servicing Income:		
Servicing fee income:		
Securitization transactions	$ 8,441	$ 6,108
Interim	5,592	9,807

Loans sold - servicing retained	5,363	897
	19,396	16,812
Ancillary income	3,513	2,314
Other	3,518	1,029
	$ 26,427	$ 20,155
MSR Amortization and Impairment:		
MSR amortization	$ (12,975)	$ (5,574)
MSR impairment provision	-	(1,014)
	$ (12,975)	$ (6,588)
Other Non-Interest Income:		
Prepayment fees:		
Commercial real estate	$ 1,011	$ 467
Residential real estate	633	706
Commercial real estate transaction fees	2,719	973
Net gain on extinguishment of debt	31	-
All other	1,521	2,456
	$ 5,915	$ 4,602

Loan servicing income (which is all related to residential real estate), increased from $20.2 million in the third quarter of 2005 to $26.4 million for the third quarter of 2006. For the first nine months of 2006 loan servicing income was $71.3 million versus $49.8 million for the first nine months of 2005. These increases were due to an increased level of loans being serviced to maturity, either in the Company's sponsored securitizations or for whole loan sales to other financial institutions in which the Company retained the servicing rights. As of September 30, 2006, the Company was servicing a total of $15.1 billion in loans to maturity, as compared to a total of $6.1 billion at September 30, 2005. This increase is a result of the Company's decision to increase its servicing to maturity portfolio and the resulting increase in the amount of securitizations and whole loan sales with servicing retained that have been entered into since September 30, 2005. With the increased levels of securitizations and whole loan sales with servicing retained being entered into, the level of interim servicing decreased. The additional loan securitization activity also created a higher level of MSRs, which resulted in an increase in the amortization (expense)

61

of the MSRs in 2006 versus 2005. The Company intends to continue to service those loans it securitizes, as well as some loans sold to other parties for more than on an interim basis (servicing retained).

The following is a breakdown of the total amount of loans outstanding being serviced by categorization as of the dates indicated:

	SEPTEMBER 30, 2006
	(MILLIONS OF D
Loans in securitizations	$ 9,095
Loans sold and servicing retained	6,034
Loans being serviced to maturity	15,129
Loans held for sale	5,610
Loans sold and serviced on an interim basis	3,512
	$ 24,251

PROVISION FOR LOSSES

For the third quarter of 2006 the Company recognized a $12.7 million provision expense as compared to a $4.1 million credit to income for the third quarter of 2005. For the first nine months of 2006, the provision expense was $28.3 million versus a $7.3 million credit to income for the first nine months of 2005. The provision expense increase was primarily a result of the increase between the quarters in the commercial real estate loans held for investment partially offset by the decreased levels of net charge-offs and non-accrual and classified (substandard) commercial real estate portfolio loans. In addition, the Company has continued to reduce its exposure to commercial real estate loans secured by hotel and lodging properties which have been the majority of the non-accrual loans and net charge-offs in recent prior periods. The net charge-off amounts and ratios (to average loans outstanding) for the commercial real estate portfolio were $153,000 or 0.01% for the third quarter of 2006 and $(2.8) million or (0.28)% for the third quarter of 2005.

For the first nine months of 2006 the net charge-off amounts and ratios were $(106,000) or 0.00% as compared to $5.6 million or 0.20% for the first nine months of 2005. The provision for loan losses represents the current period expense (or credit to income) associated with maintaining an appropriate allowance for loan losses. The loan loss provision or credit for each period is estimated on the basis of many factors, including loan growth, net charge-offs, changes in the composition and concentrations (geographic, industry, loan structure and individual loan) of the loan portfolio, the number and balances of non-accrual loans, delinquencies, the levels of restructured loans, assessment by management of the inherent risk in the portfolio, the value of the underlying collateral on classified loans and the general economic conditions in the commercial real estate markets in which the Company lends. Periodic fluctuations in the provision for loan losses and the allowance for loan losses result from management's on-going assessment of their adequacy.

62

NON-INTEREST EXPENSE

Non-interest expense decreased from $102.6 million during the third quarter of 2005 to $99.2 million for the third quarter of 2006. For the first nine months of 2006, non-interest expense increased to $287.5 million as compared to $279.8 million for the first nine months of 2005.

Compensation expense decreased from $61.9 million and $176.8 million during the third quarter and first nine months of 2005 to $55.0 million and $171.7 million for the third quarter and first nine months of 2006, respectively. Decreases in compensation expense related to residential real estate sales compensation were partially offset by decreases in the capitalization level of direct loan origination costs. Overall increases in base compensation were largely offset by decreases in incentive and benefits costs (such as management incentive compensation, employee stock ownership, 401(K) and other related accruals). Increased expense levels for legal, professional and other outside services, information technology and leasing and loan expense were the primary reason for an increase in the other component of non-interest expense. Occupancy expense has increased as the Company has expanded certain of its facilities, such as its new loan servicing center in Texas.

63

Compensation and non-compensation related operating expenses are detailed in the following tables:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS	
Compensation and related	$ 55,001	$ 61,851
Occupancy	8,208	7,412
Other	35,983	33,334
Total non-interest expense	$ 99,192	$ 102,597

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS	
Total compensation and related	$ 106,605	$ 133,665
Deferral of loan origination costs (1)	(51,604)	(71,814)
Compensation and related	$ 55,001	$ 61,851

Other non-interest expense categories for the third quarter and first nine months ended September 30, 2006 and 2005 are summarized below (note that gains on the sale of REO properties are included herein as an offset):

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS	
Legal, professional and other outside services	$ 10,207	$ 8,375
Information technology	6,181	4,844
Printing, supplies and postage	4,215	4,131
Advertising and promotion	2,778	2,915
Auto and travel	2,485	2,178
Leasing and loan expense	3,952	1,945
Net real estate owned expenses	436	(389)
Telephone	1,675	1,142
All other	4,054	8,193
Total other expenses	$ 35,983	$ 33,334

64

INCOME TAXES

Income tax expense of $17.2 million and $63.5 million for the quarters ended September 30, 2006 and 2005, represent effective tax rates of 36.8% and 40.7%, respectively, on income before income taxes of $46.7 million and $156.0 million for the same respective periods. During the third quarter of 2006, the Company recorded a reduction of its state income tax expense of $2.7 million as a result of the resolution of various state tax matters for the 1995 to 2001 tax years. For the nine months ended September 30, 2006 and 2005, income tax expense of $72.9 million and $183.8 million, represent effect tax rates of 39.2% and 40.2% on income before income taxes of $186.0 million and $457.2 million for the same respective periods. The effective tax rates for all periods presented are different than the Federal enacted tax rate of 35% due mainly to various apportioned state income tax provisions.

REVIEW OF FINANCIAL CONDITION

LOANS HELD FOR SALE

The Company's residential real estate loans held for sale have increased to $5.54 billion at September 30, 2006 from $5.42 billion at December 31, 2005. During the third quarter of 2006, residential real estate loan originations totaled $7.76 billion as compared to $9.61 billion for the third quarter of

2005. During the first nine months of 2006 residential real estate loan originations totaled $25.84 billion as compared to $26.62 billion for the first nine months of 2005. The following table details the loans held for sale as of the dates indicated:

	SEPTEMBER 30, 2006
	(THOUSANDS OF
Loan principal balance:	
1st trust deeds	$ 5,180,894
2nd trust deeds	420,430
	5,601,324
Net deferred direct origination costs	38,292
	5,639,616
Less: Valuation reserve	(96,285)
Loans held for sale - net	$ 5,543,331
Loans held for sale on non-accrual status	$ 49,794

Tier II loans (before valuation reserves):	
1st trust deeds	$ 172,178
2nd trust deeds	80,904
	$ 253,082

65

During the latter half of 2005, the Company implemented pricing strategies designed to reduce the production volume of interest-only loans, while at the same time a 40-year amortization (due in 30 years) first mortgage product was introduced. Additionally, a 50-year amortization (due in 30 years) first mortgage product was introduced during the third quarter of 2006. The interest-only loans generally provide for no principal amortization for up to the first five years and are available on the 2/28 and 3/27 (e.g., 2 years fixed rate, then 28 years adjustable rate) products. The second lien products are all fixed rate loans. The following tables profile the loan origination volume for the periods indicated:

66

THREE MONTHS ENDED

	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005
	(THOUSANDS OF DOLLARS,	
Loan origination volume by lien position:		
Firsts	$ 7,276,675	$ 8,710,006
Seconds	483,469	900,777
	$ 7,760,144	$ 9,610,783
For first lien volume only:		
Average loan size	$ 272,637	$ 251,371
Weighted-average coupon	8.31%	7.32%
Average bureau credit score (FICO)	627	622
Average loan-to-value (LTV)	80.2%	80.5%
Type of product:		
ARMs:		
30 Year:		
2/28	36.7%	89.6%
3/27	2.6%	2.2%
5/25	0.4%	0.7%
	39.7%	92.5%
40/30:		
2/28	20.2%	0.8%
3/27	0.9%	0.0%
5/25	0.1%	0.0%
	21.2%	0.8%
50/30:		
2/28	18.3%	0.0%
3/27	2.2%	0.0%
5/25	0.1%	0.0%
	20.6%	0.0%
Total ARMs	81.5%	93.3%
Fixed rate:		
30 Year	11.6%	6.7%
40/30	3.8%	0.0%
50/30	3.1%	0.0%
Total fixed rate	18.5%	6.7%
	100.0%	100.0%
Loan purpose:		
Purchase	36.6%	51.0%
Refinance	63.4%	49.0%
	100.0%	100.0%

Documentation Type:		
Full	60.3%	58.1%
Stated	38.3%	40.5%
Other	1.4%	1.4%
	100.0%	100.0%

67

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSANDS OF DOLLA	
For second lien volume only:		
Average loan size	$ 71,699	$ 55,279
Weighted-average coupon	11.14%	10.18%
Average bureau credit score (FICO)	664	648
Purpose:		
Purchase	76.1%	80.8%
Refinance	23.9%	19.2%
Percentage of second liens to first liens (in units)	25.3%	47.0%

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONT SEPTEMB
	2006	2005	2006
First & Second Mortgages - Origination by geographic dispersion:			
California	27.1%	26.8%	26.0%
Florida	13.7%	11.6%	14.2%
New York	11.0%	11.2%	11.5%
Maryland	7.5%	6.6%	7.4%
New Jersey	5.1%	6.8%	6.3%
All other states	35.6%	37.0%	34.6%
	100.0%	100.0%	100.0%

	THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS SEPTEMBER

	2006	2005	2006
Interest-only loans:			
As a percentage of first lien volume	7.6%	25.7%	9.8%
Average bureau credit score (FICO)	654	643	648
Weighted-average coupon	7.49%	6.72%	7.57%
Average loan-to-value (LTV)	82.1%	81.5%	81.5%

LOANS HELD FOR INVESTMENT AND ALLOWANCE ACTIVITY

The Company's net loans held for investment before the allowance for loan losses was approximately $6.15 billion at September 30, 2006, as compared to $4.76 billion at December 31, 2005. The increase in the Company's loans held for investment is a result of increased levels of loan commitment origination in 2005 and the first nine months of 2006, as well as a reduction in the rate of loan paydowns. Commercial real estate loans are reported net of participations to other financial institutions or investors in the amount of $220.6 million and $138.2 million as of September 30, 2006 and December 31, 2005, respectively. The following table shows the total commercial real estate new loan commitment volume, net of participations, for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
	(THOUSAND	
Senior loans	$ 1,382,697	$ 1,556,154
Mezzanine loans	-	-
	$ 1,382,697	$ 1,556,154
Average senior loan commitment size originated	$ 65,843	$ 37,051

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

	SEPTEMBER 30,	
	AMOUNT	% OF TOTAL
	(THOUSANDS OF DOLLARS	

Commercial real estate loans:		
Construction	$ 3,915,591	63 %
Bridge	1,799,517	29 %
Permanent	405,637	7 %
Single tenant credit	75,757	1 %
	6,196,502	100 %
Other	8,643	0 %
	6,205,145	100 %
Deferrred fees and costs	(56,521)	(1)%
Allowance for loan losses	(185,227)	(3)%
Loans held for investment - net	$ 5,963,397	96 %

As of September 30, 2006, approximately 19.3%, 15.0% and 11.9% of the Company's commercial real estate loans outstanding were secured by properties located within California, Florida and New York, respectively; no other state represented greater than 10% of the loan portfolio. The real estate securing these loans includes a wide variety of property and project types including condominiums (construction and conversion), multi-family-other, office, retail, industrial, land development, lodging and mixed-use properties. The loans in the portfolio were distributed by property type as follows as of the dates indicated:

	SEPTEMBER 30, 2006	DECEMBER 31 2005
Multi-family - Condominiums:		
Construction	32%	27
Conversion	23%	21
	55%	48
Land Development	14%	15
Office	9%	14
Retail	6%	7
Special Purpose	5%	2
Commercial Mixed-Use	4%	5
Multi-family - Other	3%	3
Industrial	3%	4
Hotels & Lodging	1%	2
	100%	10

The commercial real estate loan portfolio as of September 30, 2006, is stratified by loan size as follows (thousands of dollars, except percents and number of loans):

LOAN SIZE	TOTAL LOANS OUTSTANDING	%	# OF LOANS	A LO
$0 - $ 1 million	$ 2,255	0%	70	$
> $1 million - $ 5 million	117,726	2%	39	
> $5 million - $10 million	474,732	8%	67	
> $10 million - $15 million	685,195	11%	55	
> $15 million - $20 million	491,142	8%	28	
> $20 million - $30 million	1,138,965	18%	47	
> $30 million - $40 million	1,060,889	17%	30	
> $40 million - $50 million	432,835	7%	10	
> $50 million	1,792,763	29%	26	
	$ 6,196,502	100%	372	$

70

As of September 30, 2006, the average loan size was $16.7 million (or $20.5 million when loans under $1 million are excluded) and the average loan-to-value ratio was approximately 73%, using the most current available appraised values and current loan balances outstanding. The following table details the commercial real estate loan portfolio as of September 30, 2006 by property collateral type and as to outstanding balances and total commitment amounts:

PROPERTY TYPE	TOTAL LOANS OUTSTANDING	%	TOTAL LOAN COMMITMENTS	%	AVERAGE LOAN BALANC
			(THOUSANDS OF DOLLARS, EXCEPT PERCEN		
Multi-Family - Condominiums:					
Conversion	$ 1,447,071	23%	$ 1,731,788	16%	$ 28,37
Construction	1,945,810	32%	4,972,770	48%	21,62
	3,392,881	55%	6,704,558	64%	24,06
Land Development	901,142	14%	1,244,965	12%	16,38
Office	552,925	9%	665,605	6%	18,43
Retail	387,699	6%	566,235	5%	14,91
Special Purpose	340,591	5%	352,624	3%	24,32
Commercial Mixed-Use	219,796	4%	388,371	4%	16,90
Multi-Family - Other	207,337	3%	256,386	3%	2,88
Industrial	125,841	3%	159,116	2%	8,98
Hotels & Lodging	68,290	1%	68,290	1%	9,75
	$ 6,196,502	100%	$ 10,406,150	100%	$ 16,65

The commercial real estate loan portfolio includes 26 separate loans with outstanding balances in excess of $50 million as of September 30, 2006. The Company's largest single individual loan outstanding (net of participation) at September 30, 2006 was $100.5 million with a total loan commitment of $130.0 million. The Company's largest net commitment for a single loan at September 30, 2006 was $150.0 million (with $13.2 million outstanding); this commitment represents the maximum potential loan amount to the borrower; however, the amount available to borrow is generally subject to certain levels of completion or other factors on the underlying property. At September 30, 2006, the Company had two loans collateralized by the same building property; each loan was for certain floors and purpose (one for condominiums and one for office space). The combined total loan commitment of the two loans was $156.6 million with a combined total outstanding loan balance of $142.5 million. As of September 30, 2006, there were nine groups of loans (separate loans on different properties) with common investors or equity sponsors for which the aggregate outstanding principal balance of the separate loans exceeded $100 million. The largest concentration is from one affiliated investment fund and totals $206.6 million in loan principal outstanding with $220.8 million in total loan commitment and is comprised of four separate loans. All four of the loans under this concentration were performing as of September 30, 2006.

The Company's commercial real estate loans are substantially all variable-rate loans based upon an index (such as one-month LIBOR) and a spread. As of September 30, 2006, the average spread above the applicable index was 3.36%. All of the variable-rate loans have interest rate floors in terms of a minimum rate of interest to be charged; at September 30, 2006, the average interest rate floor was 6.45%. As of September 30, 2006, the commercial real estate loans outstanding had the following indexes in place (before addition of the applicable spread):

ADJUSTABLE RATE:	
One-month LIBOR	19.4%
Three-month LIBOR	5.8%
Six-month LIBOR	73.2%
Fixed Rate	1.6%
	100.0%

The following tables provide 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 well as reflect the related net loss experience and allowance for loan loss reconciliation applicable to the loans held for investment as of and for the respective periods ended as shown below (note that as of September 30, 2006, the delinquent loans 30 days past due is comprised of two loans (one of which subsequently paid off in full during October 2006) and the delinquent loans 60 days or greater past due are comprised of two loans):

	SEPTEMBER 30, 2006
	(THOUSANDS OF EXCEPT PER
Commercial Real Estate:	
Non-accrual loans held for investment ("HFI")	$ 36,478
Real estate owned / foreclosed assets	2,555
Total non-performing assets	$ 39,033
Accruing loans receivable past due 90 days or more	$ -
Restructured loans on accrual status	$ -
Delinquent loans 60 days past due or greater	0.51%
Non-accrual loans to total loans HFI	0.59%
Allowance for loan losses to total loans HFI	3.01%

72

	THREE MONTHS ENDED S	
	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
		(THOUSANDS OF
Beginning allowance for loan losses	$ 172,611	$ -
Provision for loan losses	12,687	-
Charge-offs	(190)	-
Recoveries	37	-
Ending allowance for loan losses	$ 185,145	$ -
Net charge-offs	$ (153)	$ -
Annualized net loan charge-offs to average commercial real estate loans held for investment	0.01%	

THREE MONTHS ENDED S

	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
		(THOUSANDS OF
Beginning allowance for loan losses	$ 159,909	$ -
Provision for loan losses	(4,077)	(5)
Charge-offs	-	-
Recoveries	2,823	5
Ending allowance for loan losses	$ 158,655	$ -
Net recoveries	$ 2,823	$ 5
Annualized net loan charge-offs to average commercial real estate loans held for investment	(0.28)%	

73

	NINE MONTHS ENDED	
	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
		(THOUSANDS OF
Beginning allowance for loan losses	$ 156,755	$ -
Provision for loan losses	28,284	(4)
Charge-offs	(190)	-
Recoveries	296	4
Ending allowance for loan losses	$ 185,145	$ -
Net recoveries	$ 106	$ 4
Annualized net loan charge-offs to average commercial real estate loans held for investment	0.00%	

	NINE MONTHS ENDED	
	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE
		(THOUSANDS OF

Beginning allowance for loan losses	$ 171,471	$ -
Provision for loan losses	(7,250)	(6)
Charge-offs	(12,180)	-
Recoveries	6,613	6
Ending allowance for loan losses	$ 158,654	$ -
Net charge-offs / recoveries	$ (5,567)	$ 6
Annualized net loan charge-offs to average commercial real estate loans held for investment	0.20%	

There were three non-accrual commercial real estate loans held for investment (the largest having a balance of $16.9 million) totaling $36.5 million, or 0.6% of the total loans held for investment, as of September 30, 2006. At December 31, 2005, there were five non-accrual commercial real estate loans totaling $29.3 million, or 0.6%. There were no loans on accrual status as of September 30, 2006 or December 31, 2005, which were 90 days or more past due.

REO related to commercial real estate loans was $2.6 million at September 30, 2006, consisting of two properties, which were acquired through or in lieu of foreclosure on loans secured by real estate. At December 31, 2005, there were seven REO properties totaling $30.2 million.

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

74

The allowance for loan losses, as a percentage of total loans held for investment decreased to 3.01% as of September 30, 2006, as compared to 3.29% as of December 31, 2005. In the third quarter of 2006, the Company incurred $190,000 net loan charge-offs and realized $37,000 in recoveries of loan balances previously charged-off, as compared to $2.8 million in total net recoveries for the third quarter of 2005. The net charge-off ratio for commercial real estate loans for the first nine months of 2006 was 0.00% as compared to 0.20% for the first nine months of 2005. Loans secured by hotel and lodging properties represented 60% and 86% of the total commercial real estate loans on non-accrual status as of September 30, 2006 and December 31, 2005, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The commercial and residential real estate lending activities are financed primarily through deposit accounts offered by FIL and which are insured by the FDIC. FIL offers certificates of deposit and savings and money market deposit accounts (insured by the FDIC to the legal maximum) through its 22 branches in California. FIL minimizes the costs associated with its accounts by not offering traditional checking, safe deposit boxes, ATM access and other traditional retail services. Deposits totaled $9.56 billion at September 30, 2006 and are summarized as to type as follows:

	NUMBER OF ACCOUNTS	TOTAL DEPOSITS
		(THOUSANDS OF DOLLARS)
Savings and money market deposit accounts	35,792	$ 1,534,121
Certificates of deposit:		
Retail	139,938	6,766,684
Brokered	n/m	1,258,687
		$ 9,559,492

Additional financing is available to FIL through advances from the Federal Home Loan Bank of San Francisco ("FHLB"). FIL maintains a credit line with the FHLB which has a maximum financing availability that is based upon a percentage of its regulatory assets, to which the actual borrowing capacity is subject to collateralization and certain collateral sub-limits. The financing by the FHLB is available at varying rates and terms. FIL's maximum financing availability from the FHLB, based upon its level of regulatory assets, was approximately $4.96 billion as of September 30, 2006. At September 30, 2006, FIL's actual borrowing capacity, based upon the amount of collateral pledged and the applicable advance rates, was $3.01 billion, with $1.23 billion in outstanding advances. The weighted-average interest rate on the FHLB advances outstanding at September 30, 2006 was 5.17%. The borrowing capacity of FIL from the FHLB varies from time to time and is dependent upon the amount and timing of loans pledged. FIL pledged loans with a carrying value of $3.38 billion at September 30, 2006 to secure current and any future borrowings. FIL also

has a line of credit with the Federal Reserve Bank of San Francisco and at September 30, 2006, had a borrowing capacity, based upon collateral pledged, of $297.7 million, with no amounts outstanding.

To expand the capacity and flexibility of funding its residential real estate loan origination volume, the Company has four "warehouse" lines of credit with well-established financial institutions. While the Company has historically utilized these facilities on an infrequent basis, they may be used to fund loans prior to their sale or securitization. At September 30, 2006, these four facilities totaled $3.00 billion in total borrowing capacity of which $2.25 billion is on a committed basis. Borrowing availability is created under the facilities through the pledging of residential real estate loans held for sale. There were no amounts outstanding on any of the facilities at September 30, 2006. Each of the facilities is subject to certain conditions, including but not limited to financial and other covenants. The Company was in compliance with all covenants and requirements of these facilities as of September 30, 2006. The four facilities are summarized as follows:

- $1 billion master repurchase facility ($500 million committed) with Goldman Sachs Mortgage Company expiring in February 2007, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

- $1 billion master loan and security facility ($1 billion committed) with Greenwich Capital Financial Products expiring in September 2007, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

- $500 million master repurchase facility ($500 million committed) with Credit Suisse expiring in August 2007, secured by certain residential real estate loans held for sale, interest at overnight LIBOR plus a margin of 0.35%.

- $500 million master repurchase facility ($250 million committed) with Lehman Brothers Bank expiring in December 2006, secured by certain residential real estate loans held for sale, interest at one-month LIBOR plus a margin of 0.40%.

The Company's residential loan disposition strategy is to primarily utilize whole loan sales and, to a lesser extent, securitizations. The Company attempts to build multiple whole loan sale relationships to achieve diversity and enhance market liquidity. During the first nine months of 2006, the Company had transacted whole loan sales with 15 different financial institutions, the largest institution representing 17.9% of the total whole loan sales volume during this period.

As a holding company, Fremont General currently pays its operating expenses, interest expense, taxes, obligations under its various employee benefit plans, and stockholders' dividends, and meets its other obligations primarily from its cash on hand, dividends from Fremont General Credit Corporation

("FGCC"), intercompany tax payments and benefit plan reimbursements from FIL. Dividends of $8.5 million and $6.2 million were paid on Fremont General's common stock in the quarters ended September 30, 2006 and 2005, respectively. For the nine month periods ended September 30, 2006 and 2005 dividends of $24.8 million and $16.9 million, respectively, were paid on Fremont General common stock; however, no assurance can be given that future common stock dividends will be declared.

During 2005 and 2006, FIL had transferred by dividend substantially all of its residual interests in securitized loans to FGCC, which is an intermediate holding company wholly-owned by Fremont General. The residual interests at FGCC as of September 30, 2006 had an estimated fair value of $108.3 million. The retained residual interests in securitized loans at FIL had an estimated fair value at September 30, 2006 of $24.4 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.

During the third quarter and first nine months of 2006, Fremont General purchased $3.8 million and $9.8 million (both at par value), respectively, of its 7.875% Senior Notes due 2009; the costs were approximately $3.7 million and $9.7 million, respectively.

Fremont General has cash and cash equivalents of $53.1 million at September 30, 2006 and no debt maturities until March of 2009.

OFF-BALANCE SHEET ACTIVITIES

In the third quarter of 2006, the Company continued to securitize a certain amount of its residential real estate loans. Securitization is a process of transforming the loans into securities, which are sold to investors. The loans are first sold to a special purpose corporation, which then transfers them to a qualifying special-purpose entity (a "QSPE") which is legally isolated from the Company. The QSPE, in turn, issues interest-bearing securities, commonly known as asset-backed securities, that are secured by the future cash flows to be derived from the securitized loans. The QSPE uses the proceeds from the issuance of the securities to pay the purchase price of the securitized loans. The Company does not utilize unconsolidated special-purpose entities as a mechanism to remove non-performing assets from the consolidated balance sheets.

Securitization is used by the Company to provide an additional source of liquidity. The QSPEs are not consolidated into the Company's financial statements since they meet the criteria established by SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishment of Liabilities."

In general, those criteria require the QSPE to be isolated and distinct from the transferor (the Company), to be limited to permitted activities and have defined limits on the assets it can hold and the permitted sales, exchanges or distributions of its assets.

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

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

- the impact of competition in the non-prime residential lending market and in the commercial real estate lending market on our ability to adequately price, underwrite and originate our loans;

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

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

- the effectiveness of our interest risk management, including hedging, on our funded and unfunded loans;

- the ability to access the necessary capital resources in a cost-effective manner to fund loan originations, the condition of the whole loan sale and securitization markets and the timing of sales and securitizations;

- our ability to sell or securitize the residential real estate loans we originate;

- the demand for, and the pricing and valuation of, existing and future loans, and the net premiums realized upon the sale of such loans;

- our ability to sell certain of the commercial real estate loans and foreclosed real estate in our portfolio and the net proceeds realized upon the sale of such;

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

- the ability to effectively manage our growth in assets and volume, including our lending concentrations, and to maintain acceptable levels of credit quality;

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

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

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

- the effect of certain determinations or actions taken by, or the inability to secure regulatory approvals from, the Federal Deposit Insurance Corporation, the Department of Financial Institutions of the State of California or other regulatory bodies on various matters;

- our ability to maintain cash flow sufficient for us to meet our debt service and other obligations; o the ability to maintain effective compliance with laws and regulations and control expenses, particularly in periods of significant growth for us;

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

- the impact of changes in federal and state tax laws and interpretations, including tax rate changes, and the effect of any adverse outcomes from the resolution of issues with taxing authorities;

- the ability to maintain an effective system of internal and financial disclosure controls, and to identify and remediate any control deficiencies, under the requirements of Section 404 of the Sarbanes-Oxley Act of 2002; and

- other events, risks and uncertainties discussed elsewhere in this Form 10-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 and securitization of residential real estate loans, interest expense, loan origination volume, net investment income and total stockholders' equity. The level of gain or loss on the sale and securitization of residential real estate loans is highly dependent upon the level of loan origination volume, the premium paid by the purchasers of such loans and the gain or loss realized from hedging activities. Each of these factors, in turn, are highly dependent upon changes in, and the level of, interest rates and other economic factors. The Company may experience a decrease in the amount of gain it realizes should significant interest rate volatility occur or if other economic factors have a negative impact on the value and volume of the loans the Company originates. The objective of the asset and liability management activities is to provide 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.

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

The Company is reliant upon the secondary mortgage market for execution of its whole loan sales and securitizations of residential real estate loans. While the Company strives to maintain adequate levels of liquidity support and capital to withstand certain disruptions in the secondary mortgage market, a significant disruption or change in the level of demand could adversely impact the Company's ability to fund, sell, securitize or finance its residential real estate loan origination volume, leading to reduced gains (or 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 and securitizations could adversely impact the availability and pricing of such future transactions.

Quantitative and qualitative disclosures about the Company's market risk are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. There have been no material changes in such risks or in the Company's asset and liability management activities during the nine months ended September 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2006, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. The evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the Company's management, including the CEO and CFO, have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006.

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

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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

FREMONT INDEMNITY COMPANY (IN LIQUIDATION) V. FREMONT GENERAL CORPORATION ET AL.:

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

On January 25, 2005, Fremont General's motions to dismiss the lawsuit brought by the Commissioner, on behalf of Fremont Indemnity, against Fremont General were argued and heard before the Superior Court of the State of California (the "Court"). On January 26, 2005, the Court issued its rulings dismissing all the causes of action in the FAC without leave to amend, except for the cause of action for alleged concealment by Fremont General of a potential reinsurance dispute, which was dismissed with leave to amend. The Court also found that Fremont General had properly utilized the NOLs in accordance with the Letter Agreement. In addition, the Court rejected the Commissioner's request for findings that Fremont General'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 Fremont General 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 Fremont General alleging intentional misrepresentation, concealment and promissory fraud, which induced the Commissioner to first enter into the Letter Agreement. On July 15, 2005, the Court dismissed the SAC with 20 days leave to amend. On August 4, 2005, the Commissioner filed a Third Amended Complaint ("TAC") again alleging intentional misrepresentation, concealment and promissory fraud.

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

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

GERLING GLOBAL REINSURANCE CORPORATION OF AMERICA V. FREMONT GENERAL CORPORATION ET AL.:

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

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

In January 2006, Gerling filed a Second Amended Complaint ("SAC") alleging 1) Fraud/Intentional Misrepresentation and Concealment; 2) Breach of Fiduciary Duty and Duty of Utmost Good Faith; 3) Unjust Enrichment; and 4) Breach of Contract. On March 6, 2006, 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. The Company continues to believe that this lawsuit is without merit.

GARAMENDI 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 Company intends to vigorously defend this matter and believes the lawsuit is without merit.

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, 2005. There has been no material change in such risks during the nine months ended September 30, 2006.

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

July 1-31, 2006	330,463	$ 17.21	324,213
August 1-31, 2006	2,014	$ 15.55	2,014
September 1-30, 2006	102,353	$ 14.19	102,353
Total	434,830	$ 16.49	428,580

ITEM 6: EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Restated Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 1998, Commission File Number 1-8007.)
3.2	Certificate of Amendment of Articles of Incorporation of Fremont General Corporation. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1998, Commission File Number 1-8007.)
3.3(a)	Amended and Restated Bylaws of Fremont General Corporation. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
3.3(b)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on November 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 1-8007.)
3.3(c)	Fremont General Corporation Bylaw Amendment Adopted by the Board of Directors on March 16, 2004. (Incorporated by reference to Exhibit 3.3(c) to the Registrant's Quarterly Report on Form 10-Q, for the period ended June 30, 2004, Commission File Number 1-8007.)
4.1	Form of Stock Certificate for Common Stock of the Registrant. (Incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, Commission File Number 1-8007.)
4.2	Indenture with respect to the 9% Junior Subordinated Debentures among the Registrant, the Trust and Bank of StateNew York (originated with First Interstate Bank of California), a New York Banking Corporation, as trustee. (Incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)

EXHIBIT
NO. DESCRIPTION

4.3	Amended and Restated Declaration of Trust with respect to the 9% Trust Originated Preferred Securities among the Registrant, the Regular Trustees, Chase Bank (USA), a Delaware banking corporation, as Delaware trustee, and JPMorgan Chase Bank, National Association, as Institutional Trustee. (Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
4.4	Preferred Securities Guarantee Agreement between the Registrant JP Morgan Chase Bank, National Association, as Preferred Guarantee Trustee. (Incorporated by reference to Exhibit 4.6 to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 1995, Commission File Number 1-8007.)
4.5	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 1-8007.)
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 1-8007.)
10.1	Amendment to Extend the Term of the Management Continuity Agreement for Alan W. Faigin. (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, date of report of August 2, 2006 Commission File Number 1-8007.)
10.2	Amendment to Extend the Term of the Management Continuity Agreement for Patrick E. Lamb. (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K, date of report of August 2, 2006 Commission File Number 1-8007.)
10.3	Amendment to Extend the Term of the Management Continuity Agreement for Kyle R. Walker. (Incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K, date of report of August 2, 2006 Commission File Number 1-8007.)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FREMONT GENERAL CORPORATION

Date: November 8, 2006

/s/ LOUIS J. RAMPINO

Louis J. Rampino
President and Chief Executive Officer

Date: November 8, 2006

/s/ PATRICK E. LAMB

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