

ORIGINAL

1 ROSMAN & GERMAIN LLP
2 DANIEL L. GERMAIN (STATE BAR NO. 143334)
3 16311 VENTURA BOULEVARD
4 SUITE 1200
5 ENCINO, CA 91436-2152
6 PHONE: (818) 788-0877
7 FACSIMILE: (818) 788-0885
8 E-MAIL: R&G@LALAWYER.COM

9 SCHIFFRIN BARROWAY TOPAZ &
10 KESSLER, LLP
11 ERIC L. ZAGAR (STATE BAR NO. 250519)
12 ALISON K. CLARK
13 280 KING OF PRUSSIA ROAD
14 RADNOR, PA 19087
15 PHONE: (610) 667-7706
16 FACSIMILE: (610) 667-7056
17 E-MAIL: EZAGAR@SBTKLAW.COM

18 *Attorneys for Plaintiff*

19 **UNITED STATES DISTRICT COURT**
20 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**

21 FRANK TAYLOR, JR. Derivatively on
22 Behalf of Nominal Defendant,
23 FREMONT GENERAL
24 CORPORATION

25 Plaintiff,

26 v.

27 LOUIS J. RAMPINO, WAYNE
28 BAILEY, JAMES A. MCINTYRE,
THOMAS W. HAYES, ROBERT F.
LEWIS, RUSSELL K. MAYERFELD
and DICKINSON C. ROSS

Defendants,

and

FREMONT GENERAL
CORPORATION,

Nominal Defendant.

Case No.: CV08-00124

**VERIFIED SHAREHOLDER
DERIVATIVE COMPLAINT**

JURY TRIAL DEMANDED

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VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT

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1 General stock continuously since before the conduct alleged herein and currently still
2 owns his stock. Plaintiff is a citizen of the State of Alabama.

3 6. Nominal defendant Fremont General is a corporation incorporated under
4 the laws of the State of Nevada, and maintains its principal executive offices at 2425
5 Olympic Boulevard, Santa Monica, California 90404. According to its public
6 filings, Fremont General is a financial services holding company which, together
7 with its subsidiaries, engages in the commercial and residential (consumer) real
8 estate lending businesses on a nationwide basis.

9 7. Defendant Louis J. Rampino ("Rampino") served as the Company's
10 President and Chief Executive Officer from 2004 until his resignation on November
11 12, 2007, and as a director of the Company from 1994 until November 2007.
12 Rampino also served as President and Chief Operating Officer of the Company from
13 1995 to 2004. Upon information and belief, Defendant Rampino is a citizen of the
14 State of California.

15 8. Defendant Wayne R. Bailey ("Bailey") served as the Company's
16 Executive Vice President and Chief Operating Officer of the Company from 2004
17 until his resignation on November 12, 2007, and as a director of the Company from
18 1996 to November 2007. Bailey also served as the Company's Executive Vice
19 President, Treasurer and Chief Financial Officer ("CFO") of the Company from
20 1995 to 2004, as Senior Vice President and CFO of the Company from 1994 to 1995,
21 as Vice President and from 1990 to 1994. Upon information and belief, Defendant
22 Bailey is a citizen of the State of California.

23 9. Defendant James A. McIntyre ("McIntyre") currently serves as a
24 director of Fremont General and has served as a director since 1989. McIntyre
25 previously served as the Secretary-Treasurer for Fremont Indemnity Company, a
26 subsidiary of Fremont General, from 1963 to 1968, as President of Fremont
27 Indemnity Company from 1968 to 1978, as Chief Executive Officer of Fremont
28 General from 1976 to 2004 and as Chairman of the Board of Fremont General from

1 1989 to November 2007. Since January 1, 2006, McIntyre, both individually and
2 indirectly through the James McIntyre Living Trust, has sold more than 726,000
3 shares of Company common stock for proceeds in excess of \$11.1 million. Upon
4 information and belief, Defendant McIntyre is a citizen of the State of California.

5 10. Defendant Thomas W. Hayes ("Hayes") has served as a director of
6 Fremont General since 2001 and as a member of the Audit Committee of the Board
7 (the "Audit Committee") and the Compensation Committee of the Board (the
8 "Compensation Committee") since at least 2006. Upon information and belief,
9 Defendant Hayes is a citizen of the State of California.

10 11. Defendant Robert F. Lewis ("Lewis") has served as a director of
11 Fremont General since 2002 and as a member of the Audit Committee and the
12 Compensation Committee since at least 2006. Upon information and belief,
13 Defendant Lewis is a citizen of the State of California.

14 12. Defendant Russell K. Mayerfeld ("Mayerfeld") has served as a director
15 of Fremont General since 2004 and as a member of the Audit Committee and the
16 Compensation Committee since at least 2006. Upon information and belief,
17 Defendant Mayerfeld is a citizen of the State of Illinois.

18 13. Defendant Dickinson C. Ross ("Ross") has served as a director of
19 Fremont General since 1987. Defendant Ross has also served as a member of the
20 Compensation Committee since at least 2006. Upon information and belief,
21 Defendant Ross is a citizen of the State of California.

22 14. Collectively, Defendants Rampino, Bailey, McIntyre, Hayes, Lewis,
23 Mayerfeld and Ross are referred to herein as the "Individual Defendants."
24 Defendants Hayes, Lewis and Mayerfeld may be referred to herein as the "Audit
25 Committee Defendants." Defendants Hayes, Lewis, Mayerfeld and Ross may be
26 referred to herein as the "Compensation Committee Defendants."

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1 periodic financial statements and reports filed with
2 the Securities and Exchange Commission ("SEC"),
3 and in examining and evaluating the financial
4 statements and other information concerning the
5 financial affairs of the Company;

- 6 e. When placed on notice of improper or imprudent
7 conduct by the Company and/or its employees,
8 exercise good faith in taking action to correct the
9 misconduct and prevent its recurrence; and
- 10 f. Act in furtherance of the best interests of the
11 Company and its shareholders so as to benefit all
12 shareholders equally and not in furtherance of their
13 personal interest or benefit.

14 17. The Individual Defendants, particularly the Audit Committee
15 Defendants, were responsible for maintaining and establishing adequate internal
16 accounting controls for the Company and to ensure that the Company's financial
17 statements were based on accurate financial information. According to GAAP and
18 SEC rules, to accomplish the objectives of accurately recording, processing,
19 summarizing, and reporting financial data, a corporation must establish an internal
20 accounting control structure. Among other things, the Individual Defendants were
21 required to:

- 22 a. Make and keep books, records, and accounts, which,
23 in reasonable detail, accurately and fairly reflect the
24 transactions and dispositions of the assets of the
25 issuer; and
- 26 b. Devise and maintain a system of internal accounting
27 controls sufficient to provide reasonable assurances
28 that –
 - 29 i. transactions are executed in accordance with
30 management's general or specific
31 authorization; and
 - 32 ii. transactions are recorded as necessary to
33 permit preparation of financial statements in
34 conformity with [GAAP].

35 18. Fremont General's Audit Committee Charter provides that the Audit
36 Committee shall, among other things:

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- a. Review the annual audited financial statements (including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K) with management and the independent auditor, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements;
- b. Meet periodically with management in connection with management's assessment on the effectiveness of the Company's internal control over financial reporting (including review of the Company's disclosures under "Management's Report on Internal Control Over Financial Reporting" in the Company's Annual Report on Form 10-K) and with the independent auditor concerning its opinion on management's assessment and opinion on the effectiveness of the Company's internal control over financial reporting;
- c. Review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments, if any, made in connection with the preparation of the Company's financial statements;
- d. Review with management and the independent auditor the Company's quarterly financial statements prior to the release of quarterly earnings and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Report on Form 10-Q;
- e. Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;

- 1 f. Review major changes to the Company's auditing
2 and accounting principles and practices as suggested
3 by the independent auditor, internal auditors or
4 management;
- 5 g. Review the significant reports to management
6 prepared by the internal auditing department and
7 management's responses;
- 8 h. Discuss periodically with management, internal
9 auditors and the independent auditor the Company's
10 policies with respect to risk assessment and risk
11 management;
- 12 i. Review with management, internal auditors and the
13 independent auditor the adequacy and effectiveness
14 of the Company's accounting and financial controls
15 and the effect of any regulatory or accounting
16 initiatives, as well as off-balance sheet structures, on
17 the Company's financial statements;
- 18 j. Discuss with management earnings press releases, as
19 well as financial information and earnings guidance
20 provided to analysts and rating agencies; and
- 21 k. Advise the Board with respect to the Company's
22 policies and procedures regarding compliance with
23 applicable laws and regulations and with the
24 Company's Code of Conduct and Ethics.

25 19. Furthermore, the Individual Defendants acknowledged their ethical and
26 fiduciary obligations to the Company and its shareholders when the Company
27 adopted its Code of Conduct, which specifies its applicability to the members of the
28 Board.

Specifically, according to the Company's Code of Conduct, the Code of
Conduct seeks to "communicate to employees, officers and members of the Board of
Directors of Fremont General Corporation and its subsidiaries, the Company's
policies with respect to the expected conduct of individuals in the employment of the

1 Company and to set forth guidelines to assist employees in compliance with these
2 policies in their day to day activities.”

3 21. According to certain mandates of the Code of Conduct:

- 4
- 5 a. It is the policy of the Company that its business shall
6 be conducted in accordance with all applicable laws,
7 rules and regulations of the U.S. and foreign
8 jurisdictions, and in a manner that will always reflect
9 a high standard of ethics;
- 10 b. It is the policy of the Company to conduct all of its
11 business activities in conformance with applicable
12 laws and regulations of the United States and other
13 jurisdictions in which the Company transacts
14 business. Each Employee and Director should
15 become aware of the laws, rules, regulations,
16 policies and customs applicable to the Employee's or
17 Director's activities on behalf of the Company, and
18 if a question, potential conflict, or violation arises,
19 seek guidance from, or report the matter to, the
20 office of the General Counsel of the Company;
- 21 c. Employees and Directors are expected to raise
22 concerns about ethical issues, violations of this
23 Policy or governmental rules, laws and regulations.
24 All reports are taken seriously. Generally, the Legal
25 Department, working in conjunction with the Human
26 Resources Department and other appropriate parties,
27 will investigate each allegation and, if substantiated,
28 resolve the issue through appropriate corrective
actions, make recommendations to improve
processes involved and will provide feedback to
senior management and the Board as appropriate;
- d. It is the Company's policy that no Employee or
Director shall engage in any trade in securities of the
Company or any other corporation while in the
possession of any material inside information related
to the security. The Company's insider trading
policy is more fully set forth in the Company's
Insider Trading Compliance Program and Insider
Trading Policy. All of the Company's Employees
and Directors are subject to federal "insider trading"
laws that prohibit them from buying or selling
publicly traded securities with advance knowledge of
non-public Company information that is unavailable
to the general public;
- e. Employees and Directors should refrain from trading
in the publicly traded securities of the Company at
any time that they possess non-public information
regarding the Company until the information has

1 been disclosed to the public (by press release or
2 otherwise) and has been available to the public for at
3 least two full market trading days. Similarly,
4 Employees and Directors who have access to non-
5 public information regarding any customer, supplier
6 or other third party who does business with the
7 Company should refrain from trading in the publicly
8 traded securities of such company at any time the
9 Employee or Director has undisclosed information
10 regarding the customer, supplier or other third party;

11 f. Employees and Directors should also refrain from
12 disclosing non-public information to anyone outside
13 the Company (including family members), except
14 when such disclosure is legally required or
15 permissible and necessary for the normal conduct of
16 business and then only in a manner to ensure that the
17 recipient shall not misuse the information;

18 g. Employees and Directors should be aware that they
19 may be personally liable for civil liability plus
20 criminal penalties, including imprisonment, for
21 violation of insider trading laws. Employees and
22 Directors may be personally liable for any trades that
23 a relative, friend or other person may make based
24 upon a tip from the Employee or Director.
25 Employees who violate insider trading laws and this
26 policy can also be subject to Company discipline,
27 including termination of employment.
28

FACTUAL ALLEGATIONS

Defendants' False Financial Statements

22. Beginning in 2006, Individual Defendants began a series of breaches of their fiduciary duties of good faith and loyalty by filing false and misleading financial statements with the SEC, and disseminating these financial statements to the investing public. These financial statements grossly inflated the Company's financial position, and falsely assured the SEC and the investing public that the Company was being operated in an appropriate manner with adequate internal controls relating to its subprime lending business.

23. On May 9, 2006, the Company issued a press release in which it announced the Company's financial results for the first fiscal quarter of 2006. The Individual Defendants, including Defendants Hayes, Lewis and Mayerfeld who as

1 members of the Audit Committee were charged with reviewing the Company's
2 financial statements and press releases announcing the Company's financial results
3 prior to the release of any earnings and assessing the Company's financial risk
4 exposure, knew that these results, which were contained in a Form 10-Q filed with
5 the SEC on May 10, 2006 (the "1Q06 10Q"), falsely represented the financial
6 condition of the Company to the SEC and the investing public. As the Company
7 stated in its press release:

8 Fremont General Corporation (the "Company"), a
9 nationwide residential and commercial real estate lender
10 doing business primarily through its wholly-owned
11 industrial bank, Fremont Investment & Loan, reported
12 today its results for the first quarter of 2006. Net income
13 for the first quarter of 2006 was \$31,687,000, which
14 represents a decrease of 65%, as compared to net income of
15 \$90,102,000 for the first quarter of 2005. Diluted net
16 income per share was \$0.42 for the first quarter of 2006, as
17 compared to \$1.22 per share for the first quarter of 2005.

14 **Residential Real Estate Lending**

15 Residential real estate loan originations totaled \$8.54
16 billion during the first quarter of 2006, up from \$7.76
17 billion during the first quarter of 2005.

18 * * *

19 The loss on the sale of residential real estate loans during
20 the first quarter of 2006 totaled \$15.2 million on whole
21 loan sales of \$7.26 billion. This is compared to a gain of
22 \$108.4 million on whole loan sales and securitizations of
23 \$7.06 billion during the first quarter of 2005. As previously
24 indicated by the Company, the gross premiums realized on
25 whole loan sales during the first quarter of 2006 were
26 lower than in previous periods. The loans sold during the
27 first quarter of 2006 were sold pursuant to forward loan
28 sale commitments entered into during the fourth quarter of
2005, when secondary market conditions were weak. In
addition, pricing for second mortgages in the secondary
market has declined and the Company experienced a loss
on the sale of these loans during the first quarter of 2006.
The Company also recorded increased levels of provisions
for loan valuation and repurchase reserves, primarily as a
result of increased loan repurchase trends and lower pricing
for second mortgages.

The Company has continued to increase its weighted-
average-coupon ("WAC") on its loan originations. For the
first quarter of 2006, the WAC on first mortgages was

1 8.35%, as compared to a WAC of 7.84% during the fourth
2 quarter of 2005. As a result of these rate increases and
3 improved secondary market conditions for first mortgages,
4 the Company has observed an increase in whole loan sale
5 prices for loans to be sold in the second quarter of 2006.
6 The Company expects to sell over \$9 billion in loans
7 during the second quarter of 2006 with execution levels for
8 its first mortgages resulting in realized gross premiums in
9 excess of 2%. During April 2006, the Company originated
10 a total of \$3.2 billion in residential real estate loans.

11 * * *

12 Loan quality for the commercial real estate loan portfolio
13 continued to be strong during the first quarter of 2006.
14 Non-accrual commercial real estate loans and REO totaled
15 \$70.8 million (comprised of 5 loans and 7 REO properties)
16 at March 31, 2006, down from \$96.2 million (comprised of
17 14 loans and 6 REO properties) as of March 31, 2005. The
18 Company did not experience any commercial real estate
19 loan charge-offs during the first quarter of 2006, nor did it
20 restructure any commercial real estate loans.

21 **Other Highlights**

- 22 • Net interest income increased to \$154.0 million for the
23 first quarter of 2006, as compared to \$118.8 million for
24 the first quarter of 2005. Net interest income increased
25 as a result of an increase in the average of commercial
26 and residential real estate loans outstanding and
27 increased levels of retained residual interests in
28 securitized loans.
- The Company's provision for loan losses was a \$3.9
million expense in the first quarter of 2006 as compared
to a \$1.0 million expense for the first quarter of 2005.
As of March 31, 2006, the allowance for loan losses
totaled \$160.8 million, or 3.0% of the total commercial
real estate loans held for investment.
- Fremont Investment & Loan, as of March 31, 2006, had
\$12.9 billion in assets, \$9.3 billion in FDIC-insured
deposits and \$1.5 billion in stockholder's equity, with a
total Risk-Based Capital ratio of 14.1%.
- The residential real estate loan servicing platform was
servicing approximately \$23.2 billion in loans
outstanding as of March 31, 2006, up 23% from \$18.8
billion at March 31, 2005. Of the \$23.2 billion at March
31, 2006, \$8.6 billion was being serviced to maturity in
either the Company's securitizations or from whole
loan sales with servicing retained; the remaining loans
were either the Company's loans held for sale or loans
being interim serviced by the Company after being sold
to third parties.

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- The Company's stockholders' equity totaled \$1.38 billion, or \$17.69 per share, at March 31, 2006, up 25% from \$1.10 billion, or \$14.13 per share, at March 31, 2005.

24. Also on May 9, 2006, Fremont General held an earnings conference call with investors and financial analysts to discuss the Company's quarterly financial results and recent developments. During this call, Patrick E. Lamb, Fremont Genera's Chief Financial Officer, Treasurer and Senior Vide President, in relevant part, stated:

ED LAMB: ... We also reported increased levels of provisions for loan valuation and repurchase reserves due to increased loan repurchase trends and lower pricing for second mortgages. Again, these, I think, are industry trends, as opposed to specific to our company. Having said that, we are currently seeing improved secondary market conditions and higher loan on sale prices in the low to mid 102s for first mortgages. This is compared to the 101.5 range for the first quarter of 2006.

* * *

[ANALYST]: ... And just the second question, in terms of the kickouts on the first liens, could you elaborate, was it a particular bank client? A particular product that the market doesn't like any more in terms of the first liens?

ED LAMB: What you are seeing in kickout are payment defaults and what is happening is people are getting more cautious on all of this and so the first sign of default, rather than work them like they have, they kick them back to us. There's a limited time period which they can do that, but everyone is getting a lot tougher on all of this and so these are things that we are going to have to adjust for.

[ANALYST]: And you say these are first payment defaults.

ED LAMB: Has there been any material pickup on a year-over-year basis on this or bankers getting a little more selective and a little more tougher on the bid side? Well, Matt, it's probably a little bit of both.

25. On August 8, 2006, Company issued a press release in which it announced the Company's financial results for the second fiscal quarter of 2006. The Individual Defendants, including Defendants Hayes, Lewis and Mayerfeld who

1 as members of the Audit Committee charged with reviewing the Company's
2 financial statements and press releases announcing the Company's financial results
3 prior to the release of any earnings and assessing the Company's financial risk
4 exposure, knew that these results, which were contained in a Form 10-Q filed with
5 the SEC on August 9, 2006 (the "2Q06 10Q"), falsely represented the financial
6 condition of the Company to the SEC and the investing public. As the Company
7 stated in its press release:

8
9 Fremont General Corporation (the "Company"), a
10 nationwide residential and commercial real estate lender
11 doing business primarily through its wholly-owned
12 industrial bank, Fremont Investment & Loan, reported
13 today its results for the second quarter of 2006.

14 Net income for the second quarter of 2006 was
15 \$51,924,000, which represents a decrease of 43%, as
16 compared to net income of \$90,770,000 for the second
17 quarter of 2005. Diluted net income per share was \$0.68
18 for the second quarter of 2006, as compared to \$1.21 per
19 share for the second quarter of 2005. Net income for the
20 first six months of 2006 was \$83,611,000 a decrease of
21 54% as compared to \$180,872,000 for the first six months
22 of 2005. Diluted net income per share was \$1.10 for the
23 first six months of 2006, as compared to \$2.43 per share for
24 the first six months of 2005. The decrease in net income for
25 the second quarter and the first six months of 2006 was a
26 result of a significant decrease in the net gain on whole
27 loan sales and securitizations of the Company's residential
28 real estate loans, offset in part by an increase in net interest
income.

20 The Company's Board of Directors declared a quarterly
21 cash dividend of \$0.11 per share on its common stock,
22 payable October 31, 2006 to stockholders of record as of
23 September 29, 2006. This declaration represents the 119th
consecutive quarterly cash dividend to be paid by the
Company.

24 **Residential Real Estate Lending**

25 Residential real estate loan originations totaled \$9.54
26 billion during the second quarter of 2006, up from \$9.24
27 billion during the second quarter of 2005. For the first six
28 months of 2006, residential real estate loan originations
totaled \$18.1 billion, up from \$17.0 billion during the first
six months of 2005.

1 The gain on the sale of residential real estate loans during
2 the second quarter of 2006 totaled \$8.4 million on whole
3 loan sales and securitizations ("loan sales") of \$9.89
4 billion. This is compared to a gain of \$92.0 million on loan
5 sales of \$9.76 billion during the second quarter of 2005 and
6 a loss of \$15.2 million on loan sales of \$7.26 billion during
7 the first quarter of 2006. The gross premiums realized on
8 Tier I loan sales decreased during the second quarter of
9 2006 to 2.15%, as compared to the second quarter of 2005
10 level of 2.78%, but was an increase over the first quarter of
11 2006 level of 1.21%.

12 The Company's level of gain on loan sales during the
13 second quarter of 2006 was negatively impacted by higher
14 expense provisions for loan valuation, loan repurchase and
15 premium recapture reserves. During the second quarter of
16 2006, these provisions totaled \$97.6 million, as compared
17 to \$25.1 million for the second quarter of 2005 and \$35.9
18 million for the first quarter of 2006. Losses on Tier II loan
19 sales increased to \$26.9 million during the second quarter
20 of 2006, up from \$3.2 million in the second quarter of 2005
21 and \$14.0 million for the first quarter of 2006.

22 The Company recorded these increased provision levels
23 primarily as a result of increased loan repurchase and re-
24 pricing trends from its previous whole loan sale
25 transactions, as well as lower secondary market pricing for
26 second mortgages. These increased loan repurchase and re-
27 pricing levels, which have been noted industry-wide, are
28 primarily due to increased levels of early payment
delinquencies and a greater incidence of repurchase
requests from whole loan purchasers. The Company's loan
repurchases and re-pricings increased to \$238.4 million
during the second quarter of 2006, up from \$67.7 million
and \$107.7 million for the second quarter of 2005 and the
first quarter of 2006, respectively.

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 and lower FICO bands. The Company expects to
see the impact of these changes during the fourth quarter of
2006 and the first quarter of 2007.

The residential real estate loan servicing platform was
servicing approximately \$24.9 billion in loans outstanding
as of June 30, 2006, up 19% from \$21.0 billion at June 30,
2005. Of the \$24.9 billion at June 30, 2006, \$11.2 billion
was being serviced to maturity in either the Company's
securitizations or from whole loan sales with servicing
retained, as compared to \$4.9 billion at June 30, 2005; the
remaining loans were either the Company's loans held for

1 sale or loans being interim serviced by the Company after
2 being sold to third parties.

3 * * *

4 Loan quality for the commercial real estate loan portfolio
5 continued to be strong during the second quarter of 2006.
6 Non-accrual commercial real estate loans and REO totaled
7 \$39.7 million (comprised of 4 loans and 1 REO property)
8 at June 30, 2006, down from \$51.2 million (comprised of 8
9 loans and 6 REO properties) as of June 30, 2005. The
10 Company did not experience any commercial real estate
11 loan charge-offs during the second quarter of 2006, nor did
12 it restructure any commercial real estate loans. Delinquent
13 loans 30 days past due increased to 1.04% of the June 30,
14 2005 and March 31, 2006, respectively. The total amount
15 of 30 day delinquencies at June 30, 2006 is related to one
16 loan. Delinquent loans 60 days past due or greater
17 decreased to 0.59% of the outstanding portfolio at June 30,
18 2006, down from 0.72% and 0.69% at June 30, 2005 and
19 March 31, 2006, respectively.

20 The Company's provision for loan losses was an \$11.7
21 million expense in the second quarter of 2006 as compared
22 to a \$4.2 million credit to income for the second quarter of
23 2005. The provision level is primarily derived from a
24 higher level of commercial real estate loans outstanding as
25 of June 30, 2006 and the increase in 30 day delinquencies.
26 As of June 30, 2006, the allowance for loan losses totaled
27 \$172.7 million, or 3.03% of the total commercial real estate
28 loans held for investment, as compared to \$160.0 million,
or 4.28%, as of June 30, 2005.

Other Highlights

• Net interest income increased to \$165.4 million for
the second quarter of 2006, as compared to \$128.0 million
for the second quarter of 2005. Net interest income
increased primarily as a result of an increase in the average
of commercial and residential real estate loans outstanding.

• Fremont Investment & Loan, as of June 30, 2006,
had \$12.6 billion in assets, \$9.6 billion in FDIC-insured
deposits and \$1.6 billion in stockholder's equity, with a
total Risk-Based Capital ratio of 13.9%.

• The Company's stockholders' equity totaled \$1.44
billion, or \$18.45 per share, at June 30, 2006, up 20% from
\$1.20 billion, or \$15.37 per share, at June 30, 2005.

26. Also on August 8, 2006, Fremont General held an earnings conference
call with investors and financial analysts to discuss the Company's quarterly

1 financial results and recent developments. During this call, Wayne Bailey, the
2 Company's Chief Operating Officer and Executive Vice President, in relevant part,
3 stated:

4 WAYNE BAILEY: ... The increase in provisions over the
5 levels in the first quarter result primarily from further
6 increases in loan repurchases and repricing levels. Loan
7 repurchases and repricings increased to \$238 million
8 during the second quarter, up from \$107 million in the first
9 quarter.

10 The loan repurchases and repricing result from higher early
11 payment delinquency on our loans followed by whole loan
12 investors increasing their requests for loan repurchases and
13 repricing.

14 We saw the increasing trend developing both at our
15 Company and in the industry at the end of the first quarter
16 and we took steps to analyze the Company's loan
17 production and sales process. We determined that we
18 needed to tighten up some of our loan sale conditions and
19 that modifications in our loan production parameters
20 required adjustments.

21 We have made modifications in our loan originations to
22 eliminate and/or reduce certain high to loan the value
23 product and certain lower FICO band products which were
24 creating these loan repurchases and repricings. We also
25 made modifications to our loan sale agreements with an
26 objective of reducing the impact from these early payment
27 delinquencies by minimizing the level of loan repurchases
28 and repricings that can come back to the Company.

These changes were implemented during the second
quarter and we've begun to see impact on our production
of these during July. Given these changes our expectations
are that we will reduce our loan repurchases and repricing
and the related expense, however, we expect that the
majority of the impact will not be reflected until the latter
part of the fourth quarter and early 2007.

* * *

[W]ith respect to the residential real estate lending
operation, again, [we] hit with these repricing and
repurchase trends, but again, we've analyzed that book of
business, and I think we're making some progress towards
mitigating some of that, and again, once again, in spite of
all of this and the increase in the reserves, we still produced
a ROE of approximately 15%, so all in all given the
conditions of the marketplace, not a bad quarter.

1 27. On November 9, 2006, the Company issued a press release in which it
2 announced the Company's financial results for the third fiscal quarter of 2006. The
3 Individual Defendants, including Defendants Hayes, Lewis and Mayerfeld who as
4 members of the Audit Committee charged with reviewing the Company's financial
5 statements and press releases announcing the Company's financial results prior to the
6 release of any earnings and assessing the Company's financial risk exposure, knew
7 that these results, which were contained in a Form 10-Q filed with the SEC on
8 November 9, 2006 (the "3Q06 10Q"), falsely represented the financial condition of
9 the Company to the SEC and the investing public. As the Company stated in its
10 press release:

11
12 Fremont General Corporation (the "Company"), a
13 nationwide residential and commercial real estate lender
14 doing business primarily through its wholly-owned
15 industrial bank, Fremont Investment & Loan, reported
16 today its results for the third quarter of 2006. Net income
17 for the third quarter of 2006 was \$29,525,000, which
18 represents a decrease of 68%, as compared to net income of
19 \$92,565,000 for the third quarter of 2005. Diluted net
20 income per share was \$0.39 for the third quarter of 2006, as
21 compared to \$1.23 per share for the third quarter of 2005.

22 Net income for the first nine months of 2006 was
23 \$113,136,000 a decrease of 59% as compared to
24 \$273,437,000 for the first nine months of 2005. Diluted net
25 income per share was \$1.49 for the first nine months of
26 2006, as compared to \$3.65 per share for the first nine
27 months of 2005. The decrease in net income for the third
28 quarter and the first nine months of 2006 was primarily the
result of a significant decrease in the net gain on whole
loan sales and securitizations of the Company's residential
real estate loans, offset in part by an increase in net interest
income.

Residential Real Estate Lending

24 Residential real estate loan originations totaled \$7.8 billion
25 during the third quarter of 2006, down from \$9.6 billion
26 during the third quarter of 2005. For the first nine months
27 of 2006, residential real estate loan originations totaled
28 \$25.8 billion, down slightly from \$26.6 billion during the
first nine months of 2005.

* * *

1 The following are the primary comparative aspects for the
2 residential real estate lending operations between the
second and third quarters of 2006:

3 • Loan origination volume decreased from \$9.54
4 billion in the second quarter to \$7.76 billion in the third
5 quarter – this decrease is due in large part to the
6 implementation in the second quarter of various loan
underwriting guideline adjustments designed to lower early
7 payment defaults, reduce the level of second mortgages
originated and to improve the overall credit performance of
the loans.

8 • The third quarter loss on the sale of residential real
9 estate loans totaled \$9.6 million on whole loan sales and
10 securitizations of \$8.15 billion. This is compared to a gain
of \$8.4 million on loan sales of \$9.89 billion during the
second quarter of 2006.

11 • During the third quarter, as part of its loss on the sale
12 of residential real estate loans, the Company recognized a
hedging loss of \$20.4 million as compared to a gain of \$1.6
million during the second quarter.

13 • The Company had lower expense provisions for loan
14 valuation, loan repurchase and premium recapture reserves
during the third quarter. During the third quarter, these
15 provisions totaled \$76.3 million, as compared to \$124.5
million for the second quarter.

16 • Loan repurchases and re-pricings increased to
17 \$345.7 million during the third quarter, up from \$238.4
million for the second quarter.

18 • The Company had a lower average amount of loans
19 held for sale outstanding during the quarter, which when
combined with a slightly lower weighted-average interest
20 rate on the loans during the third quarter, led to a decrease
in net interest income on the loans during the third quarter.

21 • During the third quarter, the gross premiums realized
22 on Tier I loan sales (both first and second mortgages)
decreased to 1.82%, as compared to the second quarter
23 level of 2.15%. The third quarter level was impacted by:

24 o A higher overall level of loan securitizations
(including a stand-alone second mortgage only
25 securitization), for which the Company books a
lower gross premium, but for which it does not have any
26 loan repurchase requirements.

27 o The Company also entered into a whole loan
28 sale for \$1.06 billion in which the Company received a
lower level of gross premium in return for the buyer

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assuming certain levels of first payment defaults in the loan pool.

o Tier I loan pricing for the Company's whole loan sales of first mortgages were in the 2.30% to 2.40% range during the third quarter.

As previously reported for the second quarter of 2006, the Company made modifications to its business processes during the second quarter, including changes in its loan origination parameters, with an objective of reducing its early payment defaults and overall loan repurchase levels. The Company's actions included, but were not limited to:

- Eliminating the origination of combined first and second mortgage loans with FICO scores under 640 for stated-income documentation loans and 600 for full documentation loans;
- Modifying its whole loan sale agreements to limit the notification period for repurchase requests and to extend the qualifying first payment measurement period;
- Increasing of loan servicing customer contact rates with the focus on minimizing early payment defaults;
- Enhancement of the appraisal review process and analysis systems.

In the third quarter of 2006, the Company began to see the positive impact of these measures. The following are some of the metrics that were notable:

- A 33% decrease in the dollar volume of second mortgages to 6.2% from 9.2% during the second quarter of 2006 – the percentage of second mortgages to first mortgages produced, in terms of units, also decreased during the third quarter to 25.3% from 40.0% during the second quarter of 2006;
- A decrease in stated-income documentation loans to 38.3% as a percentage of loan production from 44.6% during the second quarter of 2006;
- An increase in the overall weighted-average FICO score to 627 for first mortgages and 664 for second mortgages from 623 and 652 during the second quarter of 2006.

The Company expects to begin to see the impact of these changes on the Company's provisioning levels during the first quarter of 2007. Early indications are that these changes in production are decreasing the level of first payment defaults.

1 The residential real estate loan servicing platform was
2 servicing approximately \$24.3 billion in loans outstanding
3 as of September 30, 2006, up 9% from \$22.2 billion at
4 September 30, 2005. Of the \$24.3 billion at September 30,
5 2006, \$15.1 billion was being serviced to maturity in either
6 the Company's securitizations or from whole loan sales
7 with servicing retained, as compared to \$6.1 billion at
8 September 30, 2005; the remaining loans were either the
9 Company's loans held for sale or loans being interim
10 serviced by the Company after being sold to third parties.

11 * * *

12 Loan credit performance for the commercial real estate
13 loan portfolio continued to be strong during the third
14 quarter of 2006. Non-accrual commercial real estate loans
15 and REO totaled \$39.0 million (comprised of 3 loans and 2
16 REO properties) at September 30, 2006, down from \$46.6
17 million (comprised of 6 loans and 7 REO properties) as of
18 September 30, 2005. The Company recorded \$153,000 in
19 commercial real estate loan net charge-offs during the third
20 quarter of 2006, and did not restructure any commercial
21 real estate loans. Delinquent loans 60 days past due or
22 greater were 0.51% of the outstanding portfolio at
23 September 30, 2006, as compared to 0.59% and 0.39% at
24 June 30, 2006 and September 30, 2005, respectively.

25 The Company's provision for loan losses was a \$12.7
26 million expense in the third quarter of 2006 as compared to
27 a \$4.1 million credit to income for the third quarter of
28 2005. The provision level is primarily derived from a
higher level of commercial real estate loans outstanding as
of September 30, 2006. As of September 30, 2006, the
allowance for loan losses totaled \$185.2 million, or 3.01%
of the total commercial real estate loans held for
investment, as compared to \$158.7 million, or 3.85%, as of
September 30, 2005.

The Company's commercial real estate loan operation has
maintained a strong level of credit quality while growing
its loan portfolio. While the Company has seen a decline in
the sales velocity of some of the condominium projects that
it finances, no significant changes to the pricing of the
related units has been observed. To the extent that sales
prices do soften, the Company's underwriting standards
provide protection in that most loans have been
underwritten to an approximate level of 65% of the
expected net retail sales proceeds. These loans also are
structured with various balancing guarantees that require
cash infusions from the developer of the project in the
event they become necessary. Further reducing the
Company's credit exposure on these projects is that the
Company's condominium portfolio is geographically
diversified and that a substantial amount of the loans are

1 covered by pre-sales that involve significant (generally
2 between 5% and 20%) non-refundable deposits.

3 Other Highlights

4 • Net interest income increased to \$148.8 million for
5 the third quarter of 2006, as compared to \$120.3 million for
6 the third quarter of 2005. Net interest income increased
7 primarily as a result of an increase in the average of
8 commercial and residential real estate loans outstanding.

9 • Fremont Investment & Loan, as of September 30,
10 2006, had \$12.6 billion in assets, \$9.6 billion in FDIC-
11 insured deposits and \$1.6 billion in stockholder's equity,
12 with a total Risk-Based Capital ratio of 13.93%.

13 • The Company's stockholders' equity totaled \$1.5
14 billion, or \$18.70 per share, at September 30, 2006, up 12%
15 from \$1.3 billion, or \$16.64 per share, at September 30,
16 2005.

17 • During the third quarter, the Company opened its
18 new residential loan servicing center in Irving, Texas. This
19 new center adds to the Company's capacity as it continues
20 to grow its loan servicing portfolio.

21 28. Additionally, on November 9, 2006, the Company held an earnings
22 conference call with investors and financial analysts to discuss the Company's
23 quarterly financial results and recent developments. During this call, Company
24 executives stated, in relevant part:

25 WAYNE BAILEY: ... I'm going to turn it over, first to
26 Ron. Ron Nicolas, Executive Vice President, Chief
27 Financial Officer of Fremont Investment and Loan. Ron
28 has been all over the issues facing our residential real estate
lending operations, he's got a lot to say, a lot of numbers
that he'll tell you guys. I think he's going to tell you kind
of where we are, where the market is, where we've come
from, and what we're doing. And I think you'll find it very
interesting. So Ron, why don't you go ahead?

RONALD NICOLAS: Thanks, Wayne. First of all, good
morning thank you for the opportunity to explain to you
obviously, what is the number one issue facing the
residential subprime mortgage industry, as well as certainly
has been at the forefront of our minds. And hopefully be
able to crystallize for you what the steps that the Company
has taken here and what our expectations are as far as what
will result in certainly an improvement is what we
anticipate.

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Early in '06, we started to see a higher request for repurchases coming to us from our whole loan buyers. To give you an idea last year in '05, we saw very low repurchase requests, somewhere in the neighborhood of 30% of what actually was delinquent.

And I will tell you the delinquency, the early payment and first payment delinquency was very, very low. ... [W]e started to take a very close investigation of what was going on, and we really saw two primary factors driving this. One, as I mentioned, the investors themselves, the people who are buying our loans, the Street predominantly, were asking us to repurchase a whole heck of a lot more of the delinquency population. Again in '05, we averaged somewhere in the 30% to 50% of actual repurchases of what was being -- what was actually qualifying as a repurchase.

And today, we're averaging threefold of that. In many cases, 90% is what we average. And in some cases, we even see 100% of requests coming back to us. And then the other driver, of course as everyone is well aware of is this early pay default number. And just to take a moment here, we just -- we define early pay default as a first payment that is due the investor. Predominantly for us at Fremont, that is the second payment the customer actually makes. The first payment typically comes to us because we hold about two months worth of loans on our balance sheet.

So the first payment comes to us and then the second payment is the payment we guarantee to the investor subsequent to sale. So if that payment goes -- does not come in on the 45 day window of which is prescribed in the contract, then that becomes a qualifying EPD. The EPD's that we've seen and experienced have run up considerably. They are also up about threefold, much similar to the investor requests. So the whole picture, then really tripled in effect from '05 to '06, at least as where we are today.

29. During the November 9, 2006 conference call, Fremont General executives elaborated on the newly instituted changes to the Company's loan production, and how the Company was purportedly adequately prepared for the changing subprime lending industry. These executives stated, in relevant part:

Kyle is going to go through those changes and to our production and we started to see a much improved risk profile with our July originations. We started to make those

1 changes in the second quarter after we saw what was
2 coming back and had done the diagnosis. And we started to
3 see the rather dramatic improvement in the risk profile of
4 our production here in the third quarter.

5 * * *

6 So obviously, we're still a little over a month into this
7 fourth quarter here. And we're still getting our arms around
8 what we see from our second quarter production and our
9 early pay defaults that we experienced in the third quarter.
10 But our third quarter production, we do anticipate to be
11 significantly lower in terms of our both our FPD and EPD
12 rates that we see, as well as the provisioning and -- that
13 we'll do in the first quarter of '07.

14 So by and large, we see a similar situation in the fourth
15 quarter as we experienced here in the third quarter. But we
16 do see, on the very near term horizon, a rather substantial
17 improvement in the first quarter of '07. So with that, I'd
18 like to turn it over to Kyle and he will describe a little bit
19 more succinctly all of the changes that we've made in
20 terms of our underwriting, our product offering, and the
21 training and people part of the equation, as well.

22 * * *

23 With all of those changes, and then the early results we've
24 seen in the risk profile of our production, one of the key
25 early indicators that we utilize is what we call our first
26 payment default, that is the first payment, of course, that
27 the customer is obligated to make. And I can tell you that
28 since we've made all of these changes, both to the people
and the product and the underwriting process, we've seen a
40% drop in our initial first payment default benchmark
from the peak that we saw in the month of May. So, we've
already seen a 40% drop.

And we know exactly based upon the history of what
we've seen here, the recent history, we know exactly where
that's going to lead to in terms of early pay defaults and
then potentially a provisioning. So that's why we are very
optimistic and feel very bullish that we've gotten our arms
and our heads around this issue. And we look forward to
dramatic improvement in the first quarter of '07.

WAYNE BAILEY: Great. Thank you, guys. Again, I think
what's interesting about the subprime business at this point
is that the metrics of the business, absent the early payment
default, are actually quite sound.

* * *

The securitizations are working and going. And everything
seems to be going reasonably well in the business other

1 than this early payment default, from an industry
2 perspective. However, from our perspective we feel that we
3 now have our arms around it and are working through it.
4 And we feel, again, that you'll see substantial relief from
5 this in the first quarter of '07. ... And again, we look
6 forward to relief in the first quarter and all the numbers are
7 pointing towards relief.

8 WAYNE BAILEY: We have a strong loan loss reserve
9 position. We have \$185 million in loan loss reserve, which
10 equates to a loan loss reserve ratio in excess of 3%. This
11 represents 5 times our nonaccrual loan. So, again, overall I
12 can tell you that we're -- our financial position is sound. I
13 think that we have taken significant action to address the
14 issue that we identified very early on.

15 We're starting to see the results of that. Unfortunately, it
16 takes time to work through these -- some of the impact will
17 be felt in the third quarter. But we see from the numbers
18 that we're looking at at [sic] this point that relief is on its
19 way. And that the first quarter should be better than --
20 should see a lot of relief on that front.

21 30. Also, during the November 9, 2006 conference call, Fremont General
22 executives detailed the effect of the new loan provisions and procedures, and how
23 instituting these measures earlier would have impacted loans made by the Company
24 during the previous six months. These executives stated, in relevant part:

25 As highlighted in our press release, we did make the
26 changes in the secondary market contracts. We did this in
27 February to limit the loan put back period. Also extended
28 the early payment default qualifying measurement period,
all that was done early, early in the year. In April, we
started to see that the early payment defaults were
increasing.

So, just to give you an idea of September's first payment
defaults, which were July's fundings, we reviewed those
and again, the numbers have come down dramatically. But
of those July fundings, we determined that half of those
loans wouldn't be made in the system today based on the
underwriting and guideline changes.

We've conducted two levels of very extensive fraud
training for all of our operations people. And we've

1 recertified all of our underwriters in regard to the
2 underwriting guidelines.

3 * * *

4 Our appraisal, as I mentioned, our appraisals going to
5 license reviewers gone from 39% to over 50%. ... We've
6 increased underwriter scrutiny and elevated sign off on
7 purchased money loan transactions to the management
8 level in the centers.

9 * * *

10 We've also, we've eliminated and cut off 300 brokers for
11 fraud this year and another 300 recently based on this new
12 system, this profitability system. So of the changes we've
13 made, Ron, maybe touch base a little bit on what the
14 impact has been on the first payment defaults.

15 31. Additionally, during the November 9, 2006 conference call, investors
16 and financial analysts questioned Fremont General executives regarding the details
17 of the Company's new loan provisions, as well as the Company's projections for the
18 fourth quarter of 2006 and fiscal year 2007. In response, Company executives
19 stated, in relevant part:

20 [ANALYST]: Now, the loan repurchases and repricings
21 were up in the third quarter versus the second quarter.
22 What kind of an outlook do you see for the fourth quarter?

23 RONALD NICOLAS: Well, Frank, this is Ron, I would
24 say that we're going to see probably a slight uptick once --
25 one more quarter here before we see a pretty significant
26 down tick. Again, if you think back to my earlier
27 comments here where I talked about the timing, the period
28 of which we're repurchasing and repricing today, that
being the fourth quarter here has to do with a product that
we originated largely in the second quarter. And during the
second quarter, we saw our FPD and EPD rates, probably
the highest that we've seen all year long. They were the
highest that we've seen all yearlong. So, we're down
substantially in terms of our new production that we're
purchasing today. And that's what gives us a pretty bullish
outlook on the first quarter of '07.

* * *

[ANALYST]: ... This quarter you had provisions for -- on
the repurchase of about \$76 million. In previous years, on a
quarterly basis, it would run about \$15 to \$20 million. If

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that would normalize, I'm just wondering -- I'm just -- the question is you talk about it makes sense to be buying back stock or how you're all thinking about that?

WAYNE BAILEY: Well, again, at this point in the cycle where we are right now, the capital we need is in the bank and will stay in the bank to support the risk associated with the products we do. Keep in mind, we're a subprime mortgage originator, which we get paid well for doing that, assuming we can get our arms around the early payment default.

* * *

[ANALYST]: ... Where you're running the last few quarters with these \$75 million a quarter provision for valuation recapture on the reserves. Before it used to be like \$15 to \$20 each quarter. Where do you think this will end up normalizing on a quarterly basis? Assuming your production is at these same type of levels?

RONALD NICOLAS: Well, the best way to characterize that is that what we can tell you is what we saw in our first payment defaults. And we've seen a 40% reduction in our first payment default from a high in May. So, that's kind of the direction that's going in. And it would simply be a guess if I were to say anything more than that. We would like it to normalize. I don't think it's going to normalize at the old levels that we were at. But at somewhere between where we are and there. And obviously, we want it to be significantly below where we are.

* * *

[ANALYST]: Good morning to you. I have a few questions. The first I just want to clarify, did I hear you say, Kyle, that based on the changes you made to your underwriting that half of your loans would not have been made if -- I'm sorry half the loans wouldn't have been made that were found to be EPD loans?

KYLE WALKER: Yes, that is correct. From July's production.

[ANALYST]: Okay.

KYLE WALKER: Let's make sure you understand that. July's production, early payment defaults, we went in and looked at those loans and based upon the new criteria, half of those loans that had early payment defaults would not have been made.

* * *

1 [ANALYST]: Do you track your underwriting exceptions
2 to your guidelines? And if so, can you share those numbers
3 with us?

4 KYLE WALKER: We do track them. I don't have that
5 information with us right now. I know they've gone down
6 dramatically in the last six months.

7 32. On November 15, 2006, despite their knowledge that the Company was
8 issuing false and misleading financial results and that Fremont General's subprime
9 lending business lacked adequate internal controls, Fremont General announced that
10 the Board, upon the recommendation of the members of the Compensation
11 Committee, which included Defendants Hayes, Lewis, Mayerfeld and Ross,
12 approved cash bonuses and restricted stock option awards to Company executives.
13 Specifically, the Company announced that the Board had approved a one-time cash
14 bonus to be paid in February 2007 "in lieu of cash amounts that would have been
15 paid if the pre-tax earnings targets were achieved under the Company's 2006
16 Executive Officer Annual Bonus Plan." The Compensation Committee reported that
17 the targets required for bonuses to be awarded under the 2006 Executive Officer
18 Annual Bonus Plan were not expected to be met, but nonetheless compensated these
19 executives as if the targets had been achieved.

20 33. Similarly, the Compensation Committee, which included Defendants
21 Hayes, Lewis, Mayerfeld and Ross, approved awards of restricted stock to certain
22 executives, including an award of 125,000 shares of restricted stock to the
23 Company's then-President and Chief Executive Officer Louis Rampino and an
24 award of 110,000 shares of restricted stock to the Company's then-Chief Operating
25 Officer Wayne Bailey. As with the cash bonus payments, these awards were
26 approved by the members of the Compensation Committee and the Board despite
27 their knowledge that the targets specified in the 2006 Executive Officer Annual
28 Bonus Plan would not be met.

1 provisions and standards regarding early payment defaults ("EPDs") on loans that
2 the Company originated. These executives stated, in relevant part:

3
4 I drew the short straw, obviously, or should I say the
5 scratch and dent loan here. So I get to talk about
6 everyone's favorite topic in today's sub prime mortgage
7 industry, which is EPDs repurchases.

8 Obviously I think as many of you who follow the industry
9 are well aware, this has been a major, major issue for the
10 industry and it's really been precipitated by two primary
11 drivers. First, the EPDs, that is the early pay default that we
12 all incur. And what that is, and there's a few different
13 definitions out there, but I'll give you our definition, what
14 we go by, that is the first payment that is due the investor
15 subsequent to sale that goes delinquent. So if that loan does
16 not make that first payment due the investor, at that point
17 in time we are obligated to potentially repurchase that loan.
18 And I do say potentially because we could foresee a
19 subsequent payment where the loan becomes current and
20 then it becomes a point of settling the issue with our
21 investor.

22 * * *

23 So these have been the areas of which we've discovered
24 and started to take action. So the early payment defaults
25 have been up pretty much 2.5 to 3 times what we've
26 historically seen or seen in '05.

27 Obviously when you have higher early pay defaults, it
28 leads to greater repurchase requests. Now, interesting
dynamic that's happened here, obviously as the industry
margins and economics have come in, we've seen, by and
large, many of the investors more closely scrutinizing the
loans that they previously purchased. I guess when the
loans were making a pretty healthy spread they weren't all
that interested in doing all that work and brain damage for
those repurchases.

Today, obviously the economics require everyone to be a
little bit more tougher, a little bit more scrutiny with
respect to the loans, and so what we've seen is the
investors pretty much triple, at least in our experience, of
what they've asked to request in terms of repurchases.

So what we've seen is that, in '05, we saw probably 25 to
30% on average of our repurchase request. That is, as a
percentage of the loans that qualified as an EPD, today, our
repurchase requests average somewhere between 90 and
100% and that has obviously risen pretty significantly.

1 So, as you can see, we've done it, we've dealt with this
2 problem, both in terms of repurchases and repricings from
our comparable period in '05.

3 So what are the actions? What have we done to remedy the
4 situation? Obviously, we can't control, by in large, what
5 the investors ask us to buy back. The numbers and - of
what we can control are the early pay defaults. So that's
what we have to aggressively address.

6 * * *

7 Another aspect that we tackled was with respect to our
8 capital markets contracts. That is the contracts by which
9 our investors and of course, we live by with respect to refs
and warrants and repurchases. So we've limited our
10 window to 90 days. What that means is, if that first
11 payment to the investor goes default or delinquent, they
have three months - obviously the first month is already
passed, three months of which to notify that they want that
loan repurchased.

12 We also extended the window for that payment to qualify
13 as a good payment. Previously it would be 30 days, today
14 it's 45 days. So if a payment is received on Day 44, that is
not a delinquent loan, that is a good loan, it does not count
with respect to an early payment default.

15 * * *

16 So, one of the first early indicators, other than the
17 production profile, which we just talked about, is the first
18 payment default. First payment default different from the
19 EPD in that the first payment comes typically to us. We -
for the most part, we hold about two months worth of
inventory on our balance sheet. So typically 80% plus of
the first payment comes to us, it's a leading indicator if a
20 loan goes FPD, in all likelihood, it's going EPD as well.

21 * * *

22 What we did, we went back and we said, had we made
23 these changes a year ago or so, what would our - what
24 would our EPD, what would our FPD, first payment
25 default, and this is a 30 day measurement by the way, what
26 would it have looked like with these changes? ... And
27 again, this gives us a little bit more positive outlook and
28 optimism that we're making the right changes and of
course you want to be surgical with those changes. We
could certainly cut out all of the FPDs and the EPDs by just
wiping out a whole lot of product, but of course, we'd like
to be a little bit smarter about that and cut our the products
that are creating the products while still originating the
good product.

1 36. The above statements by the Company, and the corresponding financial
2 statements, each of which issued with the knowledge of the Individual Defendants,
3 were improper. Each of the Individual Defendants knew that they were causing the
4 Company to conduct its operations in an inappropriate manner with inadequate
5 internal controls relating to its subprime lending business, and subsequently
6 materially overstate the Company's financial results, as discussed in detail below.

7 **Fremont General's Manipulation of Financial Results Is Revealed**

8 37. On February 27, 2007, after the close of the market, Fremont General's
9 scheme to materially overinflate its financial results since 2006 began to unravel.
10 The Company shocked investors when it issued a press release entitled "Fremont
11 General Corporation to Postpone Release of Results For 2006 and Delay Filing of
12 Form 10-K." Therein, Fremont General, in relevant part, stated:

13 Fremont General Corporation (the "Company"), a
14 nationwide residential and commercial real estate lender
15 doing business primarily through its wholly-owned
16 industrial bank, Fremont Investment & Loan, today
17 announced that it will postpone the release of its fourth
18 quarter and full-year 2006 results of operations, as well as
19 the conference call to discuss such results, each previously
20 scheduled for February 28, 2007. The Company also
21 announced that it will not file its Annual Report on Form
22 10-K for the fiscal year ended December 31, 2006 by
23 March 1, 2007 and that it intends to file a Form 12b-25
24 with the Securities and Exchange Commission explaining
25 the reasons therefor.

26 38. On this news, the Company's shares declined \$2.84 per share, or 24
27 percent, to close on February 28, 2007 at \$8.81 per share, on unusually heavy trading
28 volume.

29 39. Subsequently, on March 2, 2007, the Company filed with the SEC a
30 Form 12b-25, and therein informed investors that the Company was unable to timely
31 file its 10-K. Additionally, the Company revealed, in relevant part:

32 Fremont General Corporation (the "Company") could not
33 file its Annual Report on Form 10-K for the fiscal year
34 ended December 31, 2006 by March 1, 2007 without

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unreasonable effort or expense for the reasons set forth below.

In light of the current operating environment for subprime mortgage lenders and recent legislative and regulatory events, Fremont Investment & Loan, the Company's wholly owned industrial bank subsidiary ("FIL"), intends to exit its subprime residential real estate lending business. Management and the board of directors are engaged in discussions with various parties regarding the sale of the business.

Additionally, the Company expects that it, FIL and the Company's wholly owned subsidiary, Fremont General Credit Corporation ("FGCC"), will enter into a voluntary formal agreement, to be designated as a cease and desist order (the "Order"), with the Federal Deposit Insurance Corporation (the "FDIC"). Among other things, the Order will require FIL to cease and desist from the following:

- Operating with management whose policies and practices are detrimental to FIL;
- Operating FIL without effective risk management policies and procedures in place in relation to FIL's brokered subprime mortgage lending and commercial real estate construction lending businesses;
- Operating with inadequate underwriting criteria and excessive risk in relation to the kind and quality of assets held by FIL;
- Operating without an accurate, rigorous and properly documented methodology concerning its allowance for loan and lease losses;
- Operating with a large volume of poor quality loans;
- Engaging in unsatisfactory lending practices;
- Operating without an adequate strategic plan in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;
- Operating with inadequate capital in relation to the kind and quality of assets held by FIL;
- Operating in such a manner as to produce low and unsustainable earnings;
- Operating with inadequate provisions for liquidity in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;

1 • Marketing and extending adjustable-rate mortgage
2 (“ARM”) products to subprime borrowers in an unsafe and
3 unsound manner that greatly increases the risk that
4 borrowers will default on the loans or otherwise cause
5 losses to FIL, including (1) ARM products that qualify
6 borrowers for loans with low initial payments based on an
7 introductory rate that will expire after an initial period,
8 without adequate analysis of the borrower’s ability to repay
9 at the fully indexed rate, (2) ARM products containing
10 features likely to require frequent refinancing to maintain
11 affordable monthly payment or to avoid foreclosure, and
12 (3) loans or loan arrangements with loan-to-value ratios
13 approaching or exceeding 100 percent of the value of the
14 collateral;

• Making mortgage loans without adequately
considering the borrower’s ability to repay the mortgage
according to its terms;

• Operating in violation of Section 23B of the Federal
Reserve Act, in that FIL engaged in transactions with its
affiliates on terms and under circumstances that in good
faith would not be offered to, or would not apply to,
nonaffiliated companies; and

• Operating inconsistently with the FDIC’s
Interagency Advisory on Mortgage Banking and
Interagency Expanded Guidance for Subprime Lending
Programs.

The Order will also require FIL to take a number of steps,
including (1) having and retaining qualified management;
(2) limiting the Company’s and FGCC’s representation on
FIL’s board of directors and requiring that independent
directors comprise a majority of FIL’s board of directors;
(3) revising and implementing written lending policies to
provide effective guidance and control over FIL’s
residential lending function; (4) revising and implementing
policies governing communications with consumers to
ensure that borrowers are provided with sufficient
information; (5) implementing control systems to monitor
whether FIL’s actual practices are consistent with its
policies and procedures; (6) implementing a third-party
mortgage broker monitoring program and plan; (7)
developing a five-year strategic plan, including policies
and procedures for diversifying FIL’s loan portfolio; (8)
implementing a policy covering FIL’s capital analysis on
subprime residential loans; (9) performing quarterly
valuations and cash flow analyses on FIL’s residual
interests and mortgage servicing rights from its residential
lending operation, and obtaining annual independent
valuations of such interests and rights; (10) limiting
extensions of credit to certain commercial real estate
borrowers; (11) implementing a written lending and
collection policy to provide effective guidance and control

1 over FIL's commercial real estate lending function,
2 including a planned material reduction in the volume of
3 funded and unfunded nonrecourse lending and loans for
4 condominium conversion and construction as a percentage
5 of Tier I capital; (12) submitting a capital plan that will
6 include a Tier I capital ratio of not less than 14% of FIL's
7 total assets; (13) implementing a written profit plan; (14)
8 limiting the payment of cash dividends by FIL without the
9 prior written consent of the FDIC and the Commissioner of
10 the California Department of Financial Institutions; (15)
11 implementing a written liquidity and funds management
12 policy to provide effective guidance and control over FIL's
13 liquidity position and needs; (16) prohibiting the receipt,
14 renewal or rollover of brokered deposit accounts without
15 obtaining a Brokered Deposit Waiver approved by the
16 FDIC; (17) reducing adversely classified assets; and (18)
17 implementing a comprehensive plan for the methodology
18 for determining the adequacy of the allowance for loan and
19 lease losses.

20 In addition, the Company is analyzing, in connection with
21 the preparation of the Company's consolidated financial
22 statements as of and for the period ended December 31,
23 2006, the FDIC's criticism with respect to the Company's
24 methodology for determining the carrying value of the
25 Company's residential real estate loans held for sale.

26 * * *

27 The Company will report a net loss from continuing
28 operations for the fourth quarter of 2006 as compared to
net income of \$54.5 million for the fourth quarter of 2005.
The net loss to be reported for the fourth quarter of 2006
will be due in part to increased provisions for loan
repurchase and repricing, valuation and premium recapture
reserves. In light of the Company's reported operating
results for the nine months ended September 30, 2006, and
the fact that the Company will report a net loss for the
fourth quarter of 2006, the Company's operating results for
the fiscal year ended December 31, 2006 will represent a
significant change from the Company's operating results
for the fiscal year ended December 31, 2005.

The Company is unable to estimate its results of operations
for the fourth quarter of 2006 and full-year 2006 until it
completes its review of its methodology for determining
the carrying value of its held-for-sale residential real estate
loan portfolio, as discussed above.

40. Also on March 2, 2007, the Company issued a press release entitled
"Fremont General Corporation to Exit Sub-Prime Residential Real Estate Lending."
Therein, the Company stated, in relevant part:

1 Fremont General Corporation (the "Company") (NYSE:
2 FMT), a nationwide real estate lender doing business
3 primarily through its wholly-owned industrial bank,
4 Fremont Investment & Loan ("FIL"), today announced that
5 it intends to exit its sub-prime residential real estate lending
6 operations.

7 In light of recent legislative and regulatory events, as well
8 as changing competitive dynamics in the sub-prime market,
9 management and the board of directors have entered into
10 discussions with various parties regarding the sale of this
11 business. To assist in the evaluation of its alternatives, the
12 Company has retained Credit Suisse Securities LLC as its
13 financial advisor.

14 These moves are consistent with regulatory guidelines
15 issued today, and were prompted by the Company's receipt
16 on February 27, 2007 of a Proposed Cease and Desist
17 Order (the "Proposed Order") from the Federal Deposit
18 Insurance Corporation ("FDIC"). Among other things, it
19 calls for the Company to make a variety of changes
20 designed to restrict the level of lending in its sub-prime
21 residential mortgage business. The Company had already
22 begun taking significant steps in the past year to adapt its
23 sub-prime residential real estate lending business to
24 changing conditions in the mortgage market.

25 41. On this news, the Company's shares declined an additional \$2.82 per
26 share, or 32 percent, to close on March 5, 2007 at \$5.89 per share, also on unusually
27 heavy trading volume.

28 ADDITIONAL DEVELOPMENTS

Over the next few months, additional information came to light
regarding Fremont General's subprime lending business. On March 18, 2007, *The
New York Times* published an article entitled "When Regulators Knock Twice." The
article, in relevant part, reported:

The company's management certainly has experience
exiting a business at the request of regulators. In 2000,
many of the same executives were on hand when
Fremont's workers' compensation insurance unit was
placed under the supervision of the California Department
of Insurance.

Looking back at that debacle shows striking parallels
between Fremont's troubles in insurance in the late 1990s
and its current subprime woes.

1 In both cases, Fremont used questionable practices to
2 generate great revenue growth, benefiting executives.
3 Shareholders were left holding the bag. In other words,
4 same plot, different decade.

5 The insurance part of the story begins in 1995, when
6 California deregulated the workers' compensation
7 insurance market. Fremont Compensation Insurance was
8 poised to prosper. By the turn of the century, it was the
9 nation's sixth-largest workers' compensation insurer.

10 The California attorney general said in a civil suit filed in
11 October that Fremont executives ramped up the insurance
12 business in 1998 by changing the way the company wrote
13 workers' compensation policies.

14 The complaint says that the executives breached their
15 fiduciary duties in a scheme that propelled the company's
16 insurance revenues but resulted in enormous losses that
17 contributed directly to its collapse. Defendants in the suit
18 include Mr. Rampino; James A. McIntyre, Fremont's
19 chairman; and Wayne R. Bailey, the company's chief
20 operating officer.

21 Previously, the company had been willing to cover losses
22 up to \$1 million a claim, and struck reinsurance deals to
23 cover additional losses. But its new practice shifted to its
24 reinsurers any responsibilities for losses beginning at
25 \$50,000 a claim.

26 Then, according to the California lawsuit, to generate
27 higher premiums, Fremont significantly increased the risks
28 in the kinds of policies it wrote -- without telling its
reinsurers. For example, the company changed 139 so-
called high hazard grade, or otherwise risky business
classifications relating to potential policy holders, from
"prohibited" to "allowed," the lawsuit said. In addition, it
said the underwriters were told "to give pricing discounts
to insureds whose risk profile indicated that their losses
would fall disproportionately on the reinsurers."

The complaint said Mr. Rampino was "the prime mover"
behind the shift; he told underwriters at Fremont
Indemnity, a subsidiary, that he wanted the company's
revenues from premiums to grow to \$1 billion by 1999
from \$600 million in 1998.

Fremont almost got there. Income before taxes doubled, to
\$169 million, from 1995 to 1998. For 1999, Fremont
generated premiums of \$831 million. According to the
lawsuit, the reinsurance scheme allowed Fremont
executives to exceed the figure used to calculate executive
pay "by a hair more than the necessary number." You
know what happened then: substantial pay kicked in.

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Fremont said that the lawsuit was meritless and that it would fight it. The company did not make the executives available for comment.

THE plan began unraveling in 1999 when a Fremont reinsurer recognized problems in the deal and ended it. The insurance company recorded a charge to earnings and a pretax loss for the year.

In the next year, other reinsurers balked, and Fremont's losses began to mount. Its shares plummeted to \$1.50 in 2000 from \$31 in 1998.

In November 2000, the California Department of Insurance took over supervision of Fremont's insurance company. The company agreed to stop writing insurance policies, stop paying out dividends and refrain from adding executives without permission from the department. Fremont Compensation Insurance was divested in 2002, and the insurance commissioner took over as liquidator of Fremont Indemnity in 2003.

Now fast-forward to the late, great real estate boom. In 2003, even as the insurance mess was unwinding, Fremont's subprime operations were astir. It originated \$13.7 billion in residential subprime loans that year, but by 2005 had originated \$36 billion. Last year, Fremont vaulted to third place in the subprime lender league.

* * *

On Jan. 4, Mr. McIntyre and Mr. Rampino sold large stakes in the company at that price. Mr. McIntyre sold shares worth \$2.3 million and Mr. Rampino sold \$2.45 million in stock. The company said they decided to sell in early December.

Early March brought the cease-and-desist order from the F.D.I.C., which said it had reason to believe that Fremont had "engaged in unsafe or unsound banking practices and had committed violations of law and/or regulations."

The F.D.I.C. ordered Fremont to stop engaging in "unsatisfactory" lending practices, like providing borrowers with confusing information about loan terms and risks, approving borrowers without documenting their incomes, and using products likely to require frequent refinancing to avoid foreclosure or that include substantial prepayment penalties.

Were the executives aware of the proposed order when they decided to sell their stock? A company spokesman said the executives were not.

1 The F.D.I.C. would not say how long it worked with
2 Fremont before issuing the order. But Nicholas J. Ketcha
3 Jr., a former F.D.I.C. investigator who is managing director
4 at the consulting firm FinPro, said issuing a cease-and-
5 desist order usually takes one to three months.

6 The Fremont saga is by no means over. But it certainly
7 seems that the more things change at Fremont, the more
8 they remain the same.

9 43. On April 2, 2007, the Company announced that its auditor, Grant
10 Thornton, had resigned from its position as the Company's independent accounting
11 firm. The Company stated, in relevant part:

12 Fremont General Corporation (the "Company") (NYSE:
13 FMT), doing business primarily through its wholly-owned
14 industrial bank, Fremont Investment & Loan, today
15 announced that Grant Thornton LLP ("Grant Thornton")
16 has advised the Company that Grant Thornton is resigning
17 from its position as the Company's independent registered
18 public accounting firm. Since Grant Thornton's
19 engagement by the Company in August 2006, there has not
20 been any disagreement between the Company and Grant
21 Thornton on any matter of accounting principles or
22 practices, financial statement disclosure, or auditing scope
23 or procedure, which disagreement, if not resolved to the
24 satisfaction of Grant Thornton, would have caused Grant
25 Thornton to make reference to the subject matter of the
26 disagreement in connection with its audit report. The
27 Company today filed a Current Report on Form 8-K
28 disclosing Grant Thornton's resignation.

Grant Thornton has taken the position, in light of the
Company's current operating environment and the industry
in which it operates, that they needed to expand
significantly the scope of their audit. Grant Thornton had
asked for additional information in connection with its
audit beginning in the latter part of February and stated at
that time that it needed to perform additional procedures
and testing in connection with completing its audit. ...

* * *

The Company's Audit Committee will commence the
process of selecting an independent registered public
accounting firm to replace Grant Thornton as the
Company's principal accountant. There can be no
assurance that the Company will be able to retain a new
independent registered public accounting firm. [Emphasis
added.]

1 44. On April 16, 2007, the Company issued a press release entitled
2 "Fremont General Corporation Announces: Agreement to Sell Approximately \$2.9
3 Billion of Its Sub-Prime Residential Loans, and a Letter of Intent for the Sale of
4 Most of Its Sub-Prime Residential Real Estate Business." Therein, the Company
5 stated, in relevant part:

6 Fremont General Corporation (the "Company") (NYSE:
7 FMT), doing business primarily through its wholly-owned
8 industrial bank, Fremont Investment & Loan, today
9 announced that it has entered into an agreement to sell
10 approximately \$2.9 billion of its sub-prime residential real
estate loans. The Company also announced that it has
11 entered into exclusive negotiations with the same
12 institution under an executed letter of intent to sell most of
13 its residential real estate business and assets.

14 The \$2.9 billion represents the majority of the Company's
15 sub-prime residential loans held for sale that have not yet
16 been sold. The Company will sell the loans at a discount
17 that reflects the current conditions in the sub-prime
18 mortgage market. The Company estimates that the sale of
19 these loans will result in a pre-tax loss on sale of
20 approximately \$100 million.

21 Under the executed letter of intent, the buyer would obtain
22 the Company's sub-prime residential loan servicing
23 platform, as well as a portion of the Company's sub-prime
24 loan origination platform. In addition, the Company would
25 sell to the buyer all of its mortgage servicing rights,
26 servicing advances, residual interests, and mortgage-
27 backed securities. The buyer also would assume certain
28 leases, furniture and fixtures, equipment and software
associated with the business. The Company and the buyer
are in the process of completing due diligence, finalizing
terms and working towards the completion of a definitive
agreement. There can be no assurance that the transaction
as proposed in the executed letter of intent will be
completed.

23 45. On May 22, 2007, the Company issued a press release entitled "Fremont
24 General Announces Significant Developments." Therein, the Company stated, in
25 relevant part:

- 26 • Sale of the Company's commercial real estate
27 lending business to iStar Financial Inc.
- 28 • Agreement for investment in the Company by an
investor group led by Gerald J. Ford

1 • Gerald J. Ford, Carl B. Webb and J. Randy Staff to
2 become Chairman, CEO and CFO, respectively, of the
3 Company

4 Fremont General Corporation (the "Company") (NYSE:
5 FMT), doing business primarily through its wholly-owned
6 industrial bank, Fremont Investment & Loan (the "Bank"),
7 today announced definitive agreements for the sale of the
8 Company's commercial real estate lending business, the
9 sale of a minority interest in the Company and the
10 appointment of new senior management.

11 46. On July 2, 2007, the Company issued a press release entitled "Fremont
12 General Announces Significant Developments." Therein, the Company stated, in
13 relevant part:

14 Fremont General Corporation (the "Company") (NYSE:
15 FMT), doing business primarily through its wholly-owned
16 industrial bank, Fremont Investment & Loan (the "Bank"),
17 today announced the completion of the previously
18 announced sale of the Company's commercial real estate
19 lending business and outstanding commercial real estate
20 loan portfolio to iStar Financial Inc.

21 The Company also announced that effective June 29, 2007,
22 Alan W. Faigin, the Company's Secretary, General
23 Counsel and Chief Legal Officer, was appointed interim
24 President and Chief Executive Officer of the Bank,
25 replacing Kyle R. Walker. It is expected that Mr. Faigin
26 will serve in this position until he is succeeded by Carl B.
27 Webb. Mr. Webb is expected to become President and
28 Chief Executive Officer of the Bank upon the receipt of
regulatory approval of the proposed minority investment in
the Company by an investor group led by Gerald J. Ford, as
previously announced by the Company on May 22, 2007.

29 47. On October 5, 2007, Massachusetts Attorney General Martha Coakley
30 announced that she had filed a lawsuit against Fremont General which alleged that
31 the Company had engaged in unfair and deceptive conduct "on a broad scale in
32 connection with selling mortgage loans to Massachusetts consumers" (the
33 "Massachusetts Attorney General Action"). Specifically, the Massachusetts Attorney
34 General stated:

35 Today, Attorney General Martha Coakley filed a
36 lawsuit in Suffolk Superior Court against California-based

1 Fremont General and Fremont Investment and Loan
2 ("Fremont"), a subprime lender that originated thousands
3 of loans in Massachusetts. The complaint alleges that
4 Fremont engaged in unfair and deceptive conduct on a
5 broad scale in connection with selling mortgage loans to
6 Massachusetts consumers, by:

- 7 • Selling exceedingly risky loan products that Fremont
8 knew or should have known were designed to fail,
9 including loan products that combined 100%
10 financing, no income documentation ("stated
11 income" loans), and adjustable rate mortgages that
12 caused large increases in monthly payments after
13 two or three years;
- 14 • Selling those loans through third party mortgage
15 brokers and providing financial incentives to those
16 brokers to sell high cost products, but failing to
17 meaningfully monitor or control the unfair and
18 deceptive conduct used by brokers to sell Fremont
19 loans. Such conduct includes the rampant abuse of
20 stated income loans and misleading borrowers about
21 the loans offered and their ability to refinance to
22 lower cost products; and
- 23 • Engaging in unfair or deceptive loan servicing
24 conduct, which led to unnecessary foreclosures for
25 Massachusetts borrowers.

26 The complaint further alleges that Fremont's loan
27 selling conduct has significantly contributed to the
28 foreclosure crisis in Massachusetts. The Attorney
General's Office is seeking civil penalties, restitution and
an injunction, which would prohibit Fremont from selling
or transferring any Massachusetts mortgages and from
foreclosing on any Massachusetts loan without giving the
Attorney General's Office a 90-day opportunity to review
the loan transaction and object to the foreclosure.

"Unfair and deceptive lending practices by
companies like Fremont have substantially contributed to
the escalating foreclosure crisis. Fremont's behavior not
only continues to harm Fremont borrowers, but also the
Massachusetts citizens who suffer from the secondary
impacts of foreclosure—the potentially destabilizing
impact on our neighborhoods," said Attorney General
Coakley.

In March, 2007, Fremont stopped making
residential loans in Massachusetts, after agreeing to a cease
and desist order with the FDIC. Fremont, however,
remains as servicer on many of the loans it originated but
has since sold. In that capacity, Fremont continues to
control collection of, and foreclosures regarding, the loans

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it originated. Since 2004, Fremont sold roughly 15,000 mortgage loans to Massachusetts borrowers.

Fremont marketed loan products to Massachusetts borrowers with a variety of risky features, which combined to pose an exceedingly high risk that the loans, predictably, would result in foreclosure. These risky features included:

- 100% financing, typically through an arrangement that provided one loan for 80% and a second, "piggyback loan" for 20% of the purchase price.
- The use of Adjustable Rate Mortgages (ARM) consisting of a lower fixed interest rate for a short-term time period, followed by an increase to a higher, adjustable rate which would then increase every six months for the remaining years of the loan. These loans were known as 2/28 loans (2 year fixed/28 year adjustable rate.)
- Borrowers were qualified for ARM loans based on only the initial "teaser rate" without regard to their ability to pay beyond that teaser rate. Fremont brokers often promised borrowers they could simply refinance before the ARM adjustment, without disclosing that such refinancing was entirely dependent on continued price appreciation.
- "Stated Income," "No-Doc" or "Low-Doc" loans where the borrowers need only to state their income, without providing any supporting documentation to obtain a loan.
- Substantial prepayment penalties that sometimes lasted beyond the introductory fixed rate period, thereby penalizing borrowers who refinance their loans once their introductory rate adjusts.

The complaint further alleges that Fremont encouraged unfair and deceptive conduct by rewarding mortgage brokers who sell risky loan products. Specifically, Fremont paid mortgage brokers compensation to place borrowers in loans with interest rates higher than those for which they qualified.

In July 2007, the Attorney General's Office announced a preliminary agreement with Fremont to limit Fremont's ability to commence foreclosures on Massachusetts loans. Under that agreement, the Attorney General's Office was provided a 90-day review period to object to any foreclosure it determined may have been tainted by unfair or deceptive lending practices. In the lawsuit filed today, the Attorney General's Office asked for a court order to similarly restrict Fremont's ability to foreclose on borrowers. A hearing on the Preliminary

1 Injunction has been scheduled for October 11, 2007 at 2:00
2 p.m. at Suffolk Superior Court.

3 48. On November 12, 2007, Fremont General announced that the Company
4 had appointed new executives and Board members. Specifically, the Company
5 stated, in relevant part, the following:

6 Fremont General Corporation (the "Company") (NYSE:
7 FMT - News), doing business primarily through its wholly-
8 owned industrial bank, Fremont Investment & Loan
9 ("FIL"), today announced that the Company's Board of
Directors has appointed Stephen H. Gordon as Chairman
and Chief Executive Officer of the Company.

10 Mr. Gordon has over twenty years of financial services
11 experience. He was a Co-Founder of Commercial Capital
12 Bancorp, Inc. ("CCBI"), and served as Chairman and Chief
13 Executive Officer from June 1999 until CCBI was acquired
14 by Washington Mutual, Inc. in October 2006 for nearly \$1
billion. At the time of its acquisition, CCBI was the 5th
largest California-based thrift and the 22nd largest
nationwide.

15 Also joining the Company are several of Mr. Gordon's
16 former colleagues at CCBI, including David S. DePillo,
17 who will serve as Vice Chairman and President; Richard A.
18 Sanchez, who will serve as Executive Vice President and
Chief Administration Officer; Thea Stuedli, who will serve
as Executive Vice President and Chief Financial Officer;
and Donald E. Royer, who will serve as Executive Vice
President and General Counsel.

19 Mr. Gordon and Mr. DePillo have been appointed to the
20 Company's Board of Directors, and have been elected
21 Chairman and Vice-Chairman, respectively, effective
22 immediately. Louis J. Rampino and Wayne R. Bailey, the
23 Company's former President and Chief Executive Officer
and Executive Vice President and Chief Operating Officer,
24 respectively, have resigned from the Board of Directors
and have been replaced by Messrs. Gordon and DePillo.

24 **Individual Defendants' Insider Stock Sales**

25 49. From January 1, 2006 until February 27, 2007, Defendant McIntyre,
26 armed with the knowledge that the Company's financial statements were false and
27 materially misstated, sold 726,234 shares of Fremont General common stock for
28

1 gross proceeds of \$11,188,649.97. Defendant McIntyre sold stock owned directly by
2 him and indirectly by the James A. McIntyre Living Trust, of which Defendant
3 McIntyre is a beneficiary.

4 50. At the time that the stock sales referenced in the above paragraph were
5 made, Defendant McIntyre knew that the Company's financial statements were false
6 and materially overstated, and that the Company's stock price was materially inflated
7 as a result thereof.

8 **DERIVATIVE AND DEMAND EXCUSED ALLEGATIONS**

9 51. Plaintiff brings this action derivatively in the right and for the benefit of
10 Fremont General to redress breaches of fiduciary duty and unjust enrichment of the
11 Individual Defendants.

12 52. Plaintiff will adequately and fairly represent the interests of Fremont
13 General and its shareholders in enforcing and prosecuting its rights.

14 53. Plaintiff is an owner of Fremont General common stock and was an
15 owner of Fremont General common stock at all times relevant to the Individual
16 Defendants' wrongful course of conduct alleged herein.

17 54. At the time that this action was commenced, the Fremont General Board
18 consisted of seven directors: Defendants McIntyre, Hayes, Lewis, Mayerfeld and
19 Ross, and directors Stephen H. Gordon and David DePillo. As a result of the facts
20 set forth herein, Plaintiff has not made any demand on the Fremont General Board to
21 institute this action against the Individual Defendants. Such demand would be a
22 futile and useless act with respect to each and every one of the director defendants
23 because they are incapable of making an independent and disinterested decision to
24 institute and vigorously prosecute this action for the following reasons:

- 25
26 a. Defendant McIntyre, because he faces a substantial
27 likelihood of being held liable for breaching his
28 fiduciary duties of loyalty and good faith for
engaging in illegal insider trading of Fremont
General securities, as alleged herein at ¶¶ 49-50, and
therefore he is incapable of disinterestedly and

1 independently considering a demand to commence
2 and vigorously prosecute this action;

3 b. Defendants McIntyre, Hayes, Lewis, Mayerfeld and
4 Ross, because all five of them knew of the
5 Company's ongoing unlawful and improper business
6 practices, and related improper accounting and
7 revenue recognition practices, as alleged herein at ¶¶
8 22-35, and thus face a substantial likelihood of being
9 held liable for breaching their fiduciary duties, and
10 therefore are incapable of disinterestedly and
11 independently considering a demand to commence
12 and vigorously prosecute this action; and

13 c. Defendants Hayes, Lewis and Mayerfeld, because
14 each of them knew of the Company's ongoing
15 unlawful and improper business practices, and
16 related improper accounting and revenue recognition
17 practices, yet still permitted the Company to portray
18 to the investing public the Company's false and
19 misleading financial condition despite their
20 heightened fiduciary obligations as members of the
21 Audit Committee, as alleged herein at ¶¶ 18, 22-23,
22 25, 27, and therefore are incapable of disinterestedly
23 and independently considering a demand to
24 commence and vigorously prosecute this action.

25 COUNT I

26 AGAINST ALL INDIVIDUAL DEFENDANTS 27 FOR BREACH OF FIDUCIARY DUTY OF GOOD FAITH 28 IN CONNECTION WITH IMPROPER BUSINESS PRACTICES

55. Plaintiff incorporates by reference all preceding and subsequent paragraphs as if fully set forth herein.

56. As alleged herein, each of the Individual Defendants had a fiduciary duty to, among other things, exercise good faith to ensure that the Company was operated in a diligent, honest and prudent manner and complied with all applicable federal and state laws, rules, regulations and requirements, and, when put on notice of problems with the Company's business practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence.

///

1 limited to, costs and expenses incurred in connection with governmental
2 investigations and prosecutions of the Company.

3 **COUNT III**

4 **AGAINST DEFENDANT MCINTYRE FOR BREACH OF FIDUCIARY**
5 **DUTY OF LOYALTY AND GOOD FAITH**
6 **IN CONNECTION WITH INSIDER STOCK SALES**

7 63. Plaintiff incorporates by reference all preceding and subsequent
8 paragraphs as if fully set forth herein.

9 64. At the time of each of the stock sales set forth herein, Defendant
10 McIntyre knew, but did not disclose publicly, that the Company's financial results
11 were false and misleading as a result of the Company's failure to comply with
12 applicable federal and state laws. Defendant McIntyre made each of the stock sales
13 described herein on the basis of and because of his knowledge of the material non-
14 public information described herein.

15 65. At the time of his stock sales, Defendant McIntyre knew that when it
16 was disclosed that the Company's financial results were false and misleading as a
17 result of the Company's failure to comply with applicable federal and state laws, the
18 price of the Company's common stock would dramatically decrease. Defendant
19 McIntyre's sales of Fremont General common stock based on his knowledge of this
20 material non-public information was a breach of his fiduciary duties of loyalty and
21 good faith.

22 66. Since the use of the Company's proprietary information for his own
23 gain constitutes a breach of Defendant McIntyre's fiduciary duties, the Company is
24 entitled to the imposition of a constructive trust on any proceeds Defendant McIntyre
25 obtained thereby.

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COUNT IV

**AGAINST DEFENDANT MCINTYRE FOR UNJUST ENRICHMENT IN
CONNECTION WITH INSIDER STOCK SALES**

67. Plaintiff incorporates by reference all preceding and subsequent paragraphs as if fully set forth herein.

68. Defendant McIntyre was unjustly enriched by his receipt of proceeds from his illegal sales of Fremont General common stock, as alleged herein, and it would be unconscionable to allow him to retain the benefits of his illegal conduct.

69. To remedy Defendant McIntyre's unjust enrichment, the Court should order him to disgorge to the Company all proceeds derived from his illegal sales of Fremont General common stock.

WHEREFORE, Plaintiff demands judgment as follows:

- A. Against all of the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties;
- B. Imposing a constructive trust in favor of the Company for the amount of proceeds Defendant McIntyre received from his sales of Fremont General common stock alleged herein, in addition to all proceeds otherwise derived from his service as a director and/or executive of the Company;
- C. Ordering Defendant McIntyre to disgorge to the Company all proceeds derived from his sales of Fremont General common stock alleged herein, in addition to all proceeds otherwise derived from his service as a director and/or executive of the Company;
- D. Imposing a constructive trust in favor of the Company for the amount of proceeds derived by Defendants Rampino and Bailey from their service as directors and/or executives of the Company;
- E. Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

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F. Granting such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: January 8, 2008

Respectfully submitted,
ROSMAN & GERMAIN LLP



Daniel L. Germain (Bar No. 143334)
16311 Ventura Boulevard
Suite 1200
Encino, CA 91436-2152
Telephone: (818) 788-0877
Facsimile: (818) 788-0885

SCHIFFRIN BARROWAY
TOPAZ & KESSLER, LLP
Eric L. Zagar (Bar No. 250519)
Alison K. Clark
280 King of Prussia Road
Radnor, PA 19087
Telephone: (610) 667-7706
Facsimile: (610) 667-7056

VERIFICATION

I, Frank M. Taylor Jr., hereby verify that I have authorized the filing of the attached Complaint, that I have reviewed the Complaint, and that the facts therein are true and correct to the best of my knowledge, information and belief. I declare under penalty of perjury that the foregoing is true and correct.

DATE: 11-23-07

Frank M. Taylor, Jr.
FRANK M. TAYLOR JR.