

SOX 404 NEWS

November 1, 2004

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Introduction

In this issue, we update the status of this year's project to comply with Section 404 of the Sarbanes-Oxley Act, which outlines what still needs to be done and looks ahead to the compliance activities scheduled for next year and beyond. This issue also speaks to the activities and efforts of our parent company, Fremont General Corporation, to comply with Sarbanes-Oxley.



Another Project Phase Completed

Teamwork

“The efforts of many of our people have resulted in impressive results. We have much to be proud of at this point, but we must stay focused on completing the remaining aspects of the project.”

***-Murray Zoota,
President and CEO***

The Sarbanes Oxley Section 404 compliance project continues to move forward with another critical phase of the project completed. The effectiveness of key controls over financial reporting has been completely tested. Previous SOX 404 News issues detailed how Sarbanes Oxley requires us to document and test key controls over financial reporting. Although both of these tasks are now complete, more work remains to be done by the end of this year.

As a result of activities to date, we now have a robust set of documentation that speaks to key controls in our financial reporting process. This documentation covers 46 distinct processes and is stored electronically on a secured Web site on our network. In addition, we have hard copies for each process on file that validates our testing of these controls, including documentation scopes, sample sizes, results of the tests and photocopies of items reviewed. All of this material is subject to review by our external accountants during their assessment of our control structure and assessment process .

Remaining Tasks – 2004



During the documentation and testing phases of the current project, opportunities to improve the internal control structure within each process were established. These opportunities have been tracked by the Sarbanes-Oxley Financial Certification Department, who has been working with FIL managers to focus on these opportunities and implement stronger controls. Once these improved controls are in place, they must be documented and function for a period of time to allow for selection of a reasonable test sample.

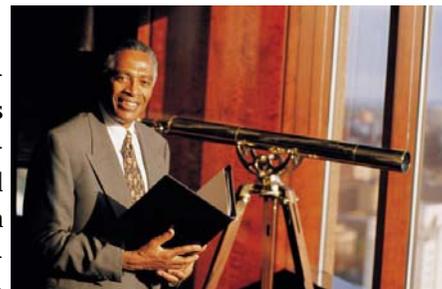
At this point, plans are in place to test the improved and documented controls in a similar manner to those previously performed. However, the tests will focus only on the improvements and not other previously reviewed controls. The control improvements must be documented and tested in time, so we are working to complete our activities in a timely manner to allow our external accountants time to perform their own testing and review.

In addition to documentation and testing of improved controls, we must also review previously tested controls to ensure they are continuing to operate effectively. We must update our assessment of the controls during the fourth quarter since our report is due at the end of the year. We plan to complete the review by inquiring directly with the managers responsible for each of the 46 processes. Since managers are responsible for controls in their respective areas, the results of this inquiry will provide us with an assurance that these controls continue to operate as previously documented. If any changes have occurred, documentation will be adjusted accordingly and additional testing may be conducted.

2005 and Beyond

The effort to comply with Sarbanes-Oxley Section 404 has been compared to “Y2k” activities. Although there are similarities (both activities required large scale, costly projects), Sarbanes-Oxley requires further efforts for the Company that extend beyond 2004. In fact, the latest forecasts estimate that 65-75% of the effort needed to comply in 2004 is required EVERY year thereafter.

In 2005 and beyond, our control documentation must be kept current and accurate. The documentation must be adjusted to reflect any significant changes in our systems, operations or processes. With the change of pace in our Company, this activity alone is enormous. Although the Sarbanes-Oxley Financial Certification Department is tasked with maintaining the documentation on an ongoing basis, each manager will be responsible for the accuracy and completeness of their own control documentation. To ensure the documentation is current and accurate, consistent coordination will be necessary among the Sarbanes-Oxley Financial Certification Department, FIL managers, and in the case of system changes, the Information Technology Department.



In addition, controls must be tested every year for effectiveness using the same process as the year before. Comprehensive tests must be performed over controls in each of the processes, and the test plans must be adjusted to reflect any changes in the control environment. Any opportunities to improve identified controls must be remediated and retested; using the same process used this year. Methods and resources to conduct these ongoing tests are still under consideration by management.

Fremont General Corporation

“Our project is very similar to Fremont Investment & Loan’s efforts, in terms of the nature of the control documentation and testing. However, the scope is limited to the processes in place at FGC.”

- Thomas Masuguchi, Director, Financial Projects

In parallel to the Fremont Investment & Loan Sarbanes-Oxley project, Fremont General Corporation (FGC) has also been working to document and test their internal controls. In fact, as a Securities and Exchange Commission registrant, FGC is actually the company directly responsible for compliance with the act. Our project, as the major subsidiary to FGC, actually supports their compliance effort.

Thomas Masuguchi, Director of Financial Projects said, “Our project is very similar to Fremont Investment & Loan’s efforts, in terms of the nature of the control documentation and testing. However, the scope is limited to the processes in place at FGC.” The effort is progressing well and meeting expected milestones. As with the efforts of Fremont Investment & Loan’s, FGC now has large electronic and physical files of control documentation and testing results.

Next Issue

In the next issue, you will continue to see updates on the progress of this year’s compliance efforts. In addition, plans to coordinate Section 404 activities with the certification requirements of Section 302 and 906 of Sarbanes-Oxley will be included.