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**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to the E\*TRADE FINANCIAL Fourth Quarter and Year-End 2009 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. Following the formal remarks we will open the call for questions and answers. [Operator Instructions].

Thank you. It is now my pleasure to turn the floor over to Susan Hickey from E\*TRADE FINANCIAL. Please, go ahead.

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**Company Representative**

Thank you. Good afternoon and thank you for joining us today. Joining me are Robert Druskin, E\*TRADE's Chairman and Interim CEO, and Bruce Nolop, our CFO, and other members of E\*TRADE's management team.

Before turning the call over to Bob, I'd like to remind everyone that during this conference call the company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. E\*TRADE FINANCIAL cautions you that certain factors, including risks and uncertainties referred to in the 10-Ks, 10-Qs and other documents E\*TRADE files with the Securities and Exchange Commission could cause the company's actual results to differ materially from those indicated by its projections or forward-looking statements. This call will present information as of January 27, 2010. Please note that the E\*TRADE FINANCIAL disclaims any duty to update any forward-looking statements made in the presentation.

During this call, E\*TRADE FINANCIAL may also discuss some non-GAAP financial measures in talking about its performance. These measures will be reconciled to GAAP either during the course of this call or in the company's press release, which can be found on its website at [investor.etrade.com](http://investor.etrade.com).

This call is being recorded. A replay of this call will be available via phone, webcast and podcast beginning at approximately 7 PM Eastern Time. The call is being webcast live at [investor.etrade.com](http://investor.etrade.com). No other recordings or copies of this call are authorized or may be relied upon.

And with that, I will now turn the call over to Bob Druskin.

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**Robert Druskin, Chairman and Interim Chief Executive Officer**

Thank you everyone for joining us this afternoon. I'm pleased to be participating in my first call as E\*TRADE's new Chairman and also as Interim CEO. During my nearly two years as a Board member, I've worked closely with Don Layton and the entire leadership team at E\*TRADE. So from my perspective, it has been a very smooth transition and I'm happy to be working more closely with the organization during this interim period. The knowledge I pick up while acting as CEO will be helpful to me and hopefully to the entire company in my ongoing role as Chairman.

During today's call, I will discuss a number of 2009 highlights and key issues and then turn it over to Bruce who will provide a financial overview for the quarter and year. From there, I will share our outlook on 2010 and then we will open up the call for questions.

Like many companies, E\*TRADE began 2009 in uncharted waters. While our core franchise, the online brokerage business was strong, we continued to be weighed down by unsettled markets, a very weak global economy and our own asset quality issues.

By executing on a number of key initiatives though, we ended the year with a much stronger company; positioned for sustainable, profitable growth supported by a stronger balance sheet and capital structure. While significant time and energy were devoted to our recapitalization efforts during the year, we stayed focused on the online brokerage business, enabling us to gain market share from traditional brokers while competing effectively against our online competitors.

During 2009, we recorded our highest DART levels in history, and added more than 115,000 net new brokerage accounts. We ended the year with a record 2.7 million brokerage accounts, and so both brokerage cash and margin receivables increased during the period. If we exclude the loan loss provision and any gains or losses on securities, our operating profit increased 8% when compared with 2008.

Our success during the year was supported by continued investments in our online brokerage business, specifically product and service enhancements to address the needs of both active traders and long term investors. This was a high priority for us. We did not want to succeed in recapitalizing the company and find that our core business franchise had been eroded.

We delivered several new investor offerings including an IRA converter tool to support customers through the rules governing 2010 Roth conversions, an enhanced Investor Resource Center to simplify access to our comprehensive offerings, an expanded fixed income offering to broaden our product base and appeal to a wider group of investors, and E\*TRADE MOBILE PRO for iPhone where we are seeing adoption across all consumer segments as investors increase their reliance on mobile devices for information and transactions.

We also launched a number of new initiatives in customer service that have helped drive a greater level of customer satisfaction and contributed to a decline in our annual brokerage account attrition from 16.7% in 2008 to 13.5% in 2009.

We are further sharpening our focus on the products and services that we believe are key to attracting, retaining and extending relationships with the long term investors who will be an important segment in driving our future growth.

In essence, we're focused on four objectives as our business evolves. One, grow our valuable active trader franchise. Two, deepen our penetration in the long term investor segment. Three, increase the quality of the customer accounts; and four, further reduce our attrition rate, a key to continued sustainable growth in brokerage accounts.

We made great progress during the year in reducing exposure in our loan portfolios, shrinking total loans by more than 5.3 billion, including 1.1 billion in the fourth quarter. We have reached an inflection point where our provision for loan losses crossed below the level of net charge-offs and we recorded our fifth straight decline in provisions.

Finally, as I alluded to earlier, we were able to execute a very significant recapitalization. We raised 765 million of cash equity, investing most of the 733 million of net proceeds in the Bank, materially improving our key ratios and liquidity.

We also executed a debt exchange of interest bearing debt to non-interest bearing convertible debt, reducing our annual corporate interest payments by more than half and deferring any material debt maturities until 2013.

This greatly enhanced financial structure has allowed us to further shift our focus and resources from repairing our balance sheet to building on our core strengths and provides the flexibility we need to execute against our objectives.

I'll now turn the call over to Bruce to discuss our financial performance.

**Bruce P. Nolop, Executive Vice President and Chief Financial Officer**

Thank you, Bob. During the quarter, we had a net loss of 67 million, or \$0.04 per share, compared with a net loss of 276 million, or \$0.50 per share, a year ago. For the full year, we reported a net loss of 1.3 billion, or \$1.18 per share. Excluding the onetime non-cash charge associated with our debt exchange, our net loss for the year would have been 525 million, or \$0.47 cents per share, and this compares with a full year 2008 loss of 809 million, or \$1.58 per share from continuing operations.

During the quarter, we generated 523 million of net revenue, which compares with 575 million in the third quarter, and represents an 8% increase from 486 million in the same quarter a year ago. Our reported revenue included net interest income of 321 million, which was essentially flat from last quarter. This reflected a net interest spread of 2.86% on average interest earning assets of 43.8 billion. So while we saw a 459 million decline in average interest earning assets during the quarter, this was offset by a four basis point expansion in the interest income spread. We continue to be pleased that we have been able to maintain this level of interest rate spread, despite the low level of market interest rates.

Commissions, fees and service charges, principal transactions and other revenue in the fourth quarter were 205 million. This was an 11% sequential decline compared to the third quarter, which reflected the lower trading activity as well as a \$0.19 decline in average commission per trade due to a less favorable customer mix.

Our total operating expense for the quarter rose 17 million to 318 million. The increase was primarily due to 14 million in charges associated with the restructuring of our international operations, as well as a seasonal increase in advertising and higher real estate owned expenses. For the full year, our operating expense declined 4%, as we benefited from prudent expense management while investing appropriately for long-term growth. I should also note that if we exclude the premiums for FDI (sic) [FDIC] insurance, our operating expense declined by 9% from the prior year.

For the full year 2009, we achieved record DARTs of 197,000, and added 115,000 net new brokerage accounts, ending the year with 2.7 million brokerage accounts. Brokerage customer cash increased by 4.7 billion in 2009 to nearly 21 billion. And margin receivables were up 37% to 3.8 billion compared to a year ago.

Looking specifically at the fourth quarter, DARTs were 174,000, down 12% sequentially due to seasonality and lower market volatility, and off 20% as compared to the fourth quarter of 2008; one of the most volatile market periods in history.

We experienced a slight decline in brokerage accounts during the quarter, down 17,000 accounts, with about half of this decline due to our exit from local market trading in Germany. We believe that the rest of the decline can be largely explained by the attrition of less seasoned accounts that were acquired at the peak of market volatility, when we saw an unprecedented surge in new account activity.

Also we believe that the lower market volatility during the fourth quarter caused a slowdown in the new account additions, since we typically see a strong correlation between new accounts and the Volatility Index.

Although net new customer assets were a negative 300 million during the quarter, net asset flows into our U.S. brokerage business were a positive 1.5 billion. And while our balance sheet reduction strategy drove a decrease in savings deposits, brokerage cash increased by 600 million during the quarter, even as our customers were net buyers of 800 million of securities.

While the majority of our restructuring in the U.S. is well behind us, we have some additional work in our international business to ensure we are focused only on opportunities where we can truly add value and achieve consistent profitability.

We will continue to offer cross-border trade, where customers residing outside of the U.S. trade in U.S. securities, but we are exiting the local market trading business, where customers residing outside of the U.S. trade in non-U.S. securities.

During the fourth quarter, we completed the sale of our local German operation, and we expect to divest our local Nordic and U.K. businesses in the first half of this year. As a result, we expect to record additional restructuring charges, which we currently estimate to be around 15 million during the first half of 2010. This strategic redirection will improve operating margins in our international business and lead to higher levels of profitability.

Turning to the balance sheet. Over the course of the year, we made significant progress in our loan portfolio. Our loan loss provision declined from 347 million in the third quarter to 292 million in the fourth quarter. Total net charge-offs in the quarter were 324 million, a decrease of 27 million from the prior quarter. We also delivered improved performance as measured by special mention and at-risk delinquencies, with year-over-year total special mention delinquencies declining by 22%, and total at-risk delinquencies declining by 13%. Sequentially, the decreases were three and 2%, respectively.

Our quarterly loan loss provision has declined 44% from its peak in the third quarter of 2008. Our loan loss allowance has stabilized at 1.2 billion, and is now 6% of total loans. The loan loss allowance includes a reserve against modified loans of 193 million, or 16% of the total allowance to reflect the accounting for troubled debt restructurings.

We continue to be pleased with the impact that our loan modification program is having on our credit exposure and comfortable with our provisioning, as the level of re-delinquency continues to be favorable to industry expectations.

We also ended the year in a strong capital position, with our Bank capital ratios substantially in excess of regulatory well capitalized thresholds. As of December 31, the Tier 1 capital ratio was 6.7% to total adjusted assets, and 12.8% to risk-weighted assets. We also had 899 million of risk-based total capital in excess of the level that our regulators defined as well capitalized.

We ended the year with 393 million in corporate cash, a decline of approximately 100 million from the prior quarter. As we discussed in our third quarter earnings call, this was due primarily to the transfer of 91 million from the parent company to the Bank for a tax refund related to the sale of our Canadian subsidiary in 2008.

And speaking of taxes, I want to call your attention to a \$23 million adjustment that we have made in our tax provision for the third quarter. This adjustment is described in the supplemental information in our press release.

In summary, we have made significant progress this year in our financial performance, our capital position, and our risk profile. With a healthier balance sheet in place, we have entered 2010 with a clearer focus on initiatives that will help drive growth in our core brokerage business.

And with that, I will turn the call back to Bob for closing remarks.

**Robert Druskin, Chairman and Interim Chief Executive Officer**

Thank you, Bruce. Before opening up the call for questions, let me share our outlook for 2010. While it's always difficult to predict market conditions, for planning purposes, we anticipate customer activity levels similar to what we saw in 2009. We also expect that we will have lower interest earning assets as we continue to shrink the Bank's balance sheet. This should largely be offset by an improvement in our net interest spread, and reflects our assumption that short term interest rates will continue to stay low for most, if not all of 2010.

We anticipate the credit trends we saw in 2009 to continue in 2010, and we expect the Bank to reach a capital breakeven point in 2010 where we are generating rather than using regulatory risk-weighted capital. This year, we plan to increase our investment in the brokerage business with an eye toward providing an expanded suite of products and tools, and an enhanced service capability in order to attract and retain quality brokerage accounts.

To this end, E\*TRADE customers will soon have access to high quality, active portfolio management service resources with a competitive advisory fee structure and an accessible entry point of \$25,000. Initial customer interest in this managed investment portfolio has been strong, and we look forward to building on this momentum as we roll the product out more broadly.

We expect operating expenses and head count to decline modestly this year, with net increases in our customer facing and technology spend and a net decrease in administrative and overhead costs. We also have a continued commitment to our advertising and marketing programs, which are budgeted to remain consistent with our 2009 spend.

During my tenure as a Director, I've been impressed with the strength of the E\*TRADE organization and the vibrancy of its brokerage business. The loyalty of the customer base during some extremely challenging times was a testament to the team and the franchise. Now after almost one month as interim CEO, I'm confident that we have a solid foundation and the right senior management team to drive the company's success. We're making meaningful progress in bringing aboard our next CEO to lead the company forward.

In the meantime, I assure you that I'm fully engaged and actively involved to make certain that we take advantage of the strong momentum we enjoy going into 2010. With that Operator, we're ready to take questions.

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions]. Your first question comes from the line of William Tanona with Collins Stewart.

**<Q – William Tanona>**: Hey, good evening, guys. First in terms of your outlook, particularly as it relates to credit, what gives you the confidence or what is it that you're seeing that makes you feel comfortable with releasing the reserves this early in the cycle?

**<A – Paul Brandow>**: Hi. This is Paul Brandow. I'm the Chief Risk Officer at E\*TRADE. So, I guess the overriding factor that gives us more comfort than you would – than other firms might have are two-fold.

Number one, we've seen, as you can see in our release, very steady improvement in delinquency experience over the course of 2009 in both our home equity and first lien portfolios. And that's being driven by the overriding factor, which is our portfolio is much more seasoned than our competitors.

Our last purchases were in 2007, and since that time, we have a liquidating portfolio. So the combination of what we experienced in the delinquencies, plus the seasonality, the seasoned nature of the portfolio gives us that comfort.

**<Q – William Tanona>**: Okay. And is there any chance that we could get the updated statistics on the LTVs and the FICO scores, as if you were to kind of reoriginate those loans today as opposed to when they were originally issued?

**<A – Paul Brandow>**: That's actually not a piece of information that we release.

**<A – Matthew Audette>**: Yes. Hey, Bill this is Matt Audette. On the LTVs, we typically and we'll provide the update in the 10-Q or 10-K. So since it's year end, it will be in the 10-K when we file it at the end of February.

**<Q – William Tanona>**: Okay, thanks, Matt.

**<A – Matthew Audette>**: Yes.

**<Q – William Tanona>**: And then, I guess, just moving on to the brokerage business, looking at the net new assets as it relates to the brokerage business itself, obviously there's been a lot of volatility. Generally speaking, I would say you've been anywhere from 10% to the low single digits here most recently. How should we be thinking about that going forward? What are you guys looking to target as you think about reinvesting in the brokerage business? And do you think it's feasible to do it consistently like the other peers, whether it would be Schwab or Ameritrade, in the high single/low double-digit type of range going forward?

**<A – Robert Druskin>**: Bill, this is Bob, let me take a first crack at that. What we talked a little about in our opening remarks was a broadening, I would say, of our investor base. The company has historically had very volatile asset flows and customer account net openings or closings.

As Bruce mentioned, there's been a high correlation between assets opening and volatility. What we want to do is, as I said before, is to expand that customer base to bring in higher quality accounts. We really are going to continue to grow the active investor base. But we want to reach out a little bit more into the long term investor base, broaden that out, attract a different kind of client in addition to what we already have, reduce the churn on the other end, because there's an enormous amount of accounts that come in here and then leave.

And some of the reduction actually, that you see in the accounts for this quarter, are because of a relatively small fee that got imposed, and had the effect of driving accounts below the minimum that we consider our threshold for counting someone as an active account.

So we want to move away from that. It will be an evolutionary process. And I think as we go further down that path, you'll start to see more stability in both account opening and closing, as well as net new asset generation.

**<Q – William Tanona>**: Okay. That's helpful. And then lastly, just what is currently your deferred tax asset, and then remind us again how much of that is actually being included in the regulatory capital. I believe it's only 15%, is that right?

**<A – Bruce Nolop>**: Yeah, the total deferred tax asset is 1.4 billion. And in terms of regulatory capital, it comes in through the other comprehensive income, and so that's the only place it's really accounted and percentage-wise, I think that probably is relatively close.

**<A – Matthew Audette>**: Yeah, Bill. I think 15% is a good number.

**<A – Bruce Nolop>**: That's probably as good a number as any.

**<Q – William Tanona>**: Okay. Great. Thank you.

Operator: Thank you. And your next question comes from the line of Matt Snowling with FBR Capital Markets.

**<Q – Matt Snowling>**: Good evening. Just I guess I have two questions for you. First, looking at some regulatory filings a while back, it shows that you're planning on selling deposits to Discover. And I was wondering if you could give us a little bit of detail in terms of the profile of those customers, and perhaps maybe some pricing?

**<A – Robert Druskin>**: Well, this is Bob. We're not going to go through pricing, but the question about the profile is a good one. That sale is really in keeping with the strategy of reducing the Bank's balance sheet, and therefore the capital required to support the Bank. We did take a very hard look though, and made sure that the accounts we're selling have no ongoing brokerage relationship with the company. Because we don't want to lose those accounts where we do multiple types of business with a client, but those are Bank customers only.

**<Q – Matt Snowling>**: Okay. Is it fair to assume there's a premium associated with these deposits?

**<A – Bruce Nolop>**: It's fair to say that this is not unfavorable financially to us.

**<Q – Matt Snowling>**: Okay. All right. I guess a second question, just looking at your average balance sheet; it looks like you shifted a lot of cash into a securities portfolio during the quarter. Any sense in terms of the duration that you're taking on these assets?

**<A – Bruce Nolop>**: This is Bruce, and just a general comment is, I think you're familiar with our past statements in other earnings calls that we had more cash than we desired. So this was something that we did not in terms of a specific strategy related to the markets, but more of our goal of utilizing more of the cash in assets. And we – secondly, only invest in high quality agency securities. So we are not increasing the risk exposure of the company. So we're just earning a higher yield.

And then in terms of duration, generally we're trying to match up with what we think is the duration of our liability structure, and roughly two and a half years would be an approximation of what it averages.

<Q – Matt Snowling>: Okay.

<A – Robert Druskin>: This is Bob. One of the ways that we were able to keep our interest spread where we did was we had higher margin balances. We reduced the rate on the CSA accounts, but we also took some of this excess cash and invested it. We had multiple goals. One was to create higher income and higher spread. Two was to – as Bruce said, to match the assets and liabilities, and in conjunction with that, was to keep our interest rate exposure quite low. And we think with what we did, we accomplished all those goals.

<Q – Matt Snowling>: Okay, great. Thanks, guys.

Operator: Thank you. Next question comes from the line of Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Yeah. Good evening. I guess the first question, I guess, I think it goes to Matt on debt. But I see some increased transparency on the regulatory capital that's very helpful. And I guess the question that, what I didn't understand, the 28 million looks like it was upstream capital from the Bank as well as I guess a 57 million usage of capital for changes in risk-weighted assets. If you could explain those two changes in capital, it would be helpful.

<A – Matthew Audette>: Yeah, sure, Rich. So one of the things we had to do with moving E\*TRADE's securities under the Bank is rework the transfer pricing a little bit. So to make those two numbers comparable, I'd really look at the 247, the first line in that table, net it off against the 28. So kind of 220, 220 million of Bank earnings, pre-credit costs.

Now the other capital changes, Bob touched on it a little before. Two things were going on. One, the increase in margin during the period. We broke that out as a separate line for you of \$37 million, and then second is the increase in mortgage backed securities that we just talked about, about two billion. So each of those were about 40 million in capital; put it together, that's roughly about the 80 million of usage that you saw. And then I think the other line, the loan portfolio runoff you could see was at 81 million.

<Q – Richard Repetto>: Got it. Okay. That's helpful. And then I guess this is for Bob and Bruce, but could you talk – we know the brokerage is going to be interest rate asset sensitive. Have you looked at this overall interest rate sensitivity? If sometime in the future we get a raise in rates, what it would – how would it impact the Bank, given your profile now?

<A – Robert Druskin>: Yeah Rich, we have – this is Bob. We've looked at both at just a jump in short term rates only, and alternatively, we've looked at a parallel shift in rates. And under both scenarios, we are – the exposure is very small. On a shift in short term rates up 100 points, it's at like \$30 million. A parallel shift is – you wouldn't even notice it.

<Q – Richard Repetto>: Okay. 30 million to the negative then?

<A – Robert Druskin>: Yeah.

<Q – Richard Repetto>: Okay.

<A – Robert Druskin>: And that's with 100 basis point jump in short rates.

<Q – Richard Repetto>: Got it. Okay. And then I guess the last question would be, you've given some pretty good forward-looking – at least your thoughts on where the provision is going in a



steadily or stable credit environment. I just want to – an update on that. Because again, I think from the beginning of the year, you said it would continue to decline, and it has. So just a little bit more specific on your outlook for the provision for 1Q, even in it's just 1Q.

<A – Paul Brandow>: This is Paul Brandow again. So I think what I'd say is when we get this question before, our allowance as you know is reflective of our forward-looking 12 month estimate of losses on our – the bulk of our portfolio. Plus for our modified loans that are TDRs, it reflects the lifetime loss. So that would give you an idea looking forward for the next year or so, and that's generally all that we actually release.

<Q – Richard Repetto>: Okay. Okay. Thank you very much.

<A – Paul Brandow>: Sure.

<A – Robert Druskin>: You're welcome, Rich.

Operator: Thank you. Next question comes from the line of Mike Vinciguerra with BMO Capital Markets.

<Q – Michael Vinciguerra>: One clarification I wanted to ask on the net new assets in the brokerage of \$1.5 billion, how much of that was actually transfers over from the banking subsidiary into the brokerage account instead?

<A – Robert Druskin>: That – this is Bob. That's a great question, and the answer is very, very little. I think it was \$38 million. Because we had the same issue as we looked through several levels down in those flows to make sure we really understood them. And I think it was \$38 million exactly.

<A – Bruce Nolop>: Right.

<Q – Michael Vinciguerra>: Okay. So predominantly, we're losing the assets only out of the Bank, and they're generally – it sounds to me like they're just banking customers and don't have that extended relationship with the brokerage side in general?

<A – Robert Druskin>: That's essentially correct, and the fact that we're losing those is on strategy. As we've said for quite some time that we're going to shrink the Bank a little bit, and reduce the capital, and redeploy it. So the fact that they're shrinking for us is a good thing right now.

<Q – Michael Vinciguerra>: Very good, okay. And then just two line item questions. You mentioned, Bruce, the REO costs going up, I guess, from Q3 to Q4. Can you tell us what the actual number was this quarter, and is that running through the other expense line?

<A – Bruce Nolop>: It's through the other expense, and it's running at about nine million this quarter, and that's up from the prior. And just to elaborate, we probably will continue to see increases in that expense line for 2010 and into 2011, gradually increasing with the size of the assets in the portfolio.

<Q – Michael Vinciguerra>: And the delta versus Q3, that nine million in Q3 was what?

<A – Bruce Nolop>: About three million.

<Q – Michael Vinciguerra>: Great. Thank you. And then just lastly, assets lost. If you could just give us a sense from the sale of the German operation and the expected loss of assets with the sale of Nordic coming up here, just so we can recalibrate?

<A – Bruce Nolop>: Assets? I'm not sure about that, but the – Germany was about half.

<A – Robert Druskin>: I think it's about 500 million.

<A – Bruce Nolop>: Oh, I see. Oh, the assets held by a customer.

<A – Robert Druskin>: No, it's about 500 million. I'm pretty sure of that number.

<Q – Michael Vinciguerra>: Great. I just want to make sure we're starting from the right base when we look at quarter over quarter growth. Great, thanks guys.

<A – Robert Druskin>: 500 is a good number.

<Q – Michael Vinciguerra>: Okay. Thank you.

Operator: Thank you. Next question comes from the line of Daniel Harris with Goldman Sachs.

<Q – Daniel Harris>: Hi, good afternoon, guys.

<A>: Hi.

<Q – Daniel Harris>: I was wondering if you could just comment a little bit on the strategy you're taking in pricing on the retail side of the business. A couple of your peers are meaningfully below you on a – the flat pricing and how do you see yourselves fitting into that? And do you think that has any impact on your net new account or asset generations?

<A – Robert Druskin>: We – this is Bob. We look at this all the time actually. And certainly have taken a much harder look recently, given what Schwab did. We haven't seen a lot of reaction to that, either from competitors or from our own clients, quite frankly. But nonetheless, what we're going to try and do as we move forward, and I think it's consistent with what we're trying to do on the segmentation of our clients, is we're going to continue to try and simplify our pricing structure. We're going to continue to look hard at any nuisance sort of fees that clients might see.

But what we really want to do is not necessarily be the cheapest. I don't think it's a winning game for us to just compete on price. What we're going to try and do is compete on value. And I talked a lot in my opening comments about new products and services, upgraded levels of client satisfaction. And so we think as long as we're price competitive and deliver good technology, good products, good service, we can create a value proposition that we think could be a winner. And so that's how I would think about it.

<Q – Daniel Harris>: Okay. No, that's helpful. You know, as I think about the loan portfolio and the pace of change that you guys have seen on a sequential basis, and if you annualize it, it's certainly pretty significant at 20ish percent. When you think about that going forward, should we be thinking of that on a percentage decline, on a nominal dollar decline? How do you guys think about the runoff in that portfolio?

<A – Robert Druskin>: Go ahead.

<A – Paul Brandow>: Well, in terms of the runoff of the portfolio, we – I think you can expect to see, certainly through 2010, the same pace of reduction, about a \$1 billion a quarter that we saw in the last couple of quarters. So that's, so of course that assumes no significant change in prepayments fees, but that's a reasonable assumption.

<A – Robert Druskin>: And that's been pretty consistent.

<A – Paul Brandow>: Yes.

**<Q – Daniel Harris>**: Okay. No, that's helpful as we model out over the next year. And then just lastly for me. On sort of the principal transaction side and the market making business, how do you think about the revenue capture per share traded there? It's obviously trended down, and I know that you've got some agreements in place. But as those agreements start to shift off towards the end of the year, do you think about that revenue capture changing in any meaningful way?

**<A – Michael Curcio>**: This is Mike Curcio, Head of Brokerage. We see a lot of opportunities towards the end of the year, when we'll reassess all our order flow and what we send internally versus externally. We've also been very pleased with a lot of customers coming back. So we think there's a real opportunity to expand that.

**<Q – Daniel Harris>**: Okay.

**<A – Bruce Nolop>**: Yeah. So in other words, the amount that we can gain should be able to offset the lower fee in some of the areas such as options.

**<Q – Daniel Harris>**: Okay. Thanks a lot, guys.

**<A>**: You're welcome.

Operator: Thank you. And your next question comes from the line of Roger Freeman with Barclays Capital.

**<Q – Roger Freeman>**: Just coming back to the change in net accounts. I guess sort of tying to your comments about the lower volatility resulting in some of the accounts from before the – I guess before the market fall off, coming off. Would you say that's unique to your business? Because, just looking at obviously Schwab's a little bit different, but Ameritrade even had increasing net adds during the fourth quarter. I'm just curious if you're seeing any differences there?

**<A – Robert Druskin>**: Well, the three largest quarters that E\*TRADE ever had in terms of net new account generation was the fourth quarter of '08, and the first two quarters of '09. So I think we really had an exaggerated move in accounts. And a lot of those accounts, unfortunately, and this gets back to account churn, it all sort of comes back to the same things. A lot of those accounts then sort of moved out as the year went by. I would tell you, though, that January, from this same kind of metric we're looking at, we haven't closed the month. So everything is preliminary, but it looks much better. It looks more normal for us.

**<A – Bruce Nolop>**: The other area I would point out is that, this is Bruce, that we tend to have more variation quarter-to-quarter. But – so when we look at for the full year, and we tried to make it as much apples to apples as we could, we feel comfortable that our account growth was right in line with our competitors on the online.

**<Q – Roger Freeman>**: Okay. Got it. Okay. And I guess on the commission rate, can you just maybe delve a little bit more into the mix issues? Was this just more active traders? Was your option mix up or down? Because it's – I think it probably would have been up in the quarter, which would have been a positive by...

**<A – Bruce Nolop>**: Yeah, the options were actually pretty good, about 15% of DARTs. Where you saw the unfavorable mix was in a lower DART scenario, less volatility. The Main Street customers tend to be less active, and they're the ones that have the premium pricing structure.

**<Q – Roger Freeman>**: Okay. And the 15% options mix compared to what in the third quarter?

**<A – Robert Druskin>**: It was 14.

**<A – Bruce Nolop>**: It was 14 so it was relatively constant.

<Q – Roger Freeman>: Got it. And there's – was there any change in dynamic in payment for order flow to you, that it was down or anything like that?

<A – Robert Druskin>: No, it was pretty flat, wasn't it?

<A – Bruce Nolop>: It was just relative to trading activity.

<A – Robert Druskin>: Yeah, exactly.

<A – Bruce Nolop>: But in terms of the amount per trade, we're pretty consistent.

<A – Robert Druskin>: Yes, pretty flat.

<Q – Roger Freeman>: Okay. And then, I guess a couple of things on the sort of net interest income. I guess one thing is on the – as you've been trying to push down the cash deposits in the Bank, your cost of deposits it looks like went down to 34 basis points from 53, and your cash did go down. But in the grand scheme of things it's not – I think – I don't know, but you can correct me if I'm wrong, it just doesn't seem that much relative to where you wanted to go. And I guess the question is, are your customers actually pretty rate insensitive at this point? And if so, how do you actually sort of force the agenda from here? Because you can't really do it by cutting rates.

<A – Robert Druskin>: That's a good question. They seem to be pretty rate insensitive, as you implied. And so we will – we may push rates a little bit more, test that theory, that's something we're always talking about. We'll look, as we have done in the past, at securitizing different things. We'll look at possible sales from time to time.

There's lots of ways to move around the balance sheet. Dropping rates to a point where people start leaving is just one way to do it. So we're focused on what we want to get done. There's lots of ways we can do it. We will only do things, though, when they make sense to us from a pricing standpoint, and where they're economically feasible. We don't want to rush towards a goal and shoot ourself in the foot getting there. So we're actively looking at lots of different avenues, and we'll see what makes the most sense as we move through the year.

<Q – Roger Freeman>: Do you think – is it fair to maybe assume that as rates start to move back up that you may be a laggard in raising your rates and that that may be one way to do that? And then actually, would that make you more – potentially more asset sensitive than you indicated before?

<A – Robert Druskin>: Well, again, we would – there's trade-offs, and we would look at what raising rates or rather not raising rates would do. We always look at what all of that means in terms of our interest rate sensitivity, and we'll make a judgment at that time. It's hard to predict not knowing all the variables.

<Q – Roger Freeman>: Got it. Okay. All right. Thanks.

<A>: Sure.

Operator: Thank you. Next question comes from the line of Faye Elliot with Merrill Lynch.

<Q – Faye Elliot>: Hi. Back to account growth. If we chart advertising and marketing expense against account growth, we see about a two quarter or a one to two quarter lag. And given your higher ad spend in 4Q, are you seeing signs or beginning to see signs yet of any stronger account activity?

<A – Robert Druskin>: Well, it's – as I said before, January looks much better than the rate in the fourth quarter, especially as you moved later in the quarter. So I'm not sure how you attribute that exactly. And, again, just not to beat this thought to death, but we don't just want to get accounts in through the door, although it's important to do; we want to make sure that we continue to upgrade the quality of the accounts that we bring in. Because we think that they'll be more likely to be retained, that the asset and revenue characteristics will be more favorable than some of the new accounts that we've gotten in the past. And it's going to be a juggling act. It's going to be some of one and some of the other. But longer term, that's the direction we're headed.

<Q – Faye Elliot>: Okay. Great. And then back to the expenses. You had mentioned there was about nine million of OREO in your other operating expenses, a \$3 million delta over 3Q '09. Would – and you had said that it might increase over the course of 2010. I'm assuming you don't mean it would increase by that same delta throughout the year. Would it hang around nine million in other operating expenses? What would be the incremental increase we could expect?

<A – Bruce Nolop>: It would be starting from that kind of base and would gradually increase. It wouldn't be the same percentage increase. It would just be a gradual flow and...

<Q – Faye Elliot>: Okay. So not the jump we saw in this sequential?

<A – Bruce Nolop>: No, but it will be something that will be noticeable in the other expense line. And we can update you as we go, but for modeling, it would be something you should just factor in a gradual increase.

<Q – Faye Elliot>: All right. Great. Thank you.

Operator: Thank you. Next question comes from the line of Michael Carrier with Deutsche Bank.

<Q – Michael Carrier>: Where your capital levels are at the Bank and then at the parent. And then let's just assume that you do break even at the Bank sometime this year. Given your conversations with the regulators, and then potential changes in regulatory capital requirements, when do you feel like – what are the things that you're looking for? Where you feel like you're going to have enough excess capital as the balance sheet continues to shrink that you'll be able to look to deploy that?

<A – Bruce Nolop>: This is Bruce, and I would just say that in our projections, we feel very good about the ability to generate capital in the Bank both from earnings and from the reduction in the balance sheet. And we also feel good about the amount of corporate cash we have.

Having said that, there will come a time when we want more dividends coming up from the Bank. So the real question is when the regulators will feel comfortable enough that there's confidence in allowing the earnings of the Bank to be dividended up beyond what the securities subsidiary earns. And we hope that we'll be beginning those conversations with the regulators this year, and we will be monitoring that as one of the key variables going forward.

<Q – Michael Carrier>: Okay. And then just on the expense guidance. You were saying a modest decrease year-over-year, and that's just – that's including the investment in the brokerage unit and the inline marketing expense?

<A – Robert Druskin>: Yes, that is an all-in number. There's going to be some ups and downs as we go through the year. But we believe that we'll deliver lower operating expenses for this year. But there will be, I think, a careful parsing of those expenses. We want to put more money where we can provide better services to our clients, make sure we have sufficient marketing support for all that, and continue to squeeze on general and administrative overhead to fund that. So while the overall number will be slightly down, we'll make sure that we're spending it where we get the best return for it.

<Q – Michael Carrier>: Okay. And then finally, just on the OREO expense, any size of that portfolio? And then in terms of the units that you're going to be exiting, the Nordic, the U.K., are those roughly breakeven? Meaning, we have the charge, but in terms of a P&L impact?

<A – Bruce Nolop>: Let me answer the question about the international, this is Bruce, and then we can focus on the REO question. They are not breakeven. The local operations are losing money, and so one of the reasons that we wanted to do this is it will allow us to focus on the profitable cross border business. And we believe that we can recover the costs incurred for restructuring relatively soon with a payback as soon as a year.

<Q – Michael Carrier>: Okay.

<A – Robert Burton>: This is Bob Burton on the REO. In general over 2009, our disposition of REO properties more or less kept pace with new properties coming in. And so we were relatively flat from the end of 2008. We do expect, however, that in 2010 that number will start to climb, probably through the first three quarters of the year and then turn at that point.

<Q – Michael Carrier>: Okay. Thanks.

Operator: Thank you. Next question comes from the line of Howard Chen with Credit Suisse.

<Q – Howard Chen>: Hi, good evening everyone.

<A>: Hi.

<Q – Howard Chen>: Just following up on a prior question. If the loan portfolio shrinks about \$1 billion a quarter should we anticipate a similar shrinkage on the funding side or maybe anticipate a bit of balance sheet mix shift?

<A – Bruce Nolop>: The – in terms of the asset side, the real issue is whether or not we can reduce our liabilities. And that gets back to this whole question about deposits. And we need to essentially reduce our cash that we obtain through brokerage deposits and Bank deposits. And that's been our constraint in reducing the balance sheet assets at the same pace as loans have been repaid. And that will be a primary factor going forwards.

<Q – Howard Chen>: Okay. Thanks.

<A – Robert Druskin>: And the negating factor has been the liability side.

<Q – Howard Chen>: Right. And then, just I guess following up to that, are you baking in any other deposit sales or loan sales when you think about your expectations for that shrinking balance sheet in 2010?

<A – Robert Druskin>: We don't have – we don't have anything baked in, because it would probably a mistake to build a budget around the expectation of a transaction or a series of transactions, because then you're almost forced to do something even if the right economics and opportunities don't materialize.

So the answer is no, it's not baked in, but we are going to be opportunistic in continuing to explore all possible options to hasten our progress in moving towards those goals. But no we didn't bake it in, because you can get forced into a corner that way.

<Q – Howard Chen>: Okay. Thanks, Bob, and makes sense to me. And then you provided some interesting details relating to the mod program in the past like both size and state of like average

payment reduction. Just curious, if you could just refresh us on some of those stats related to the program?

**<A – Robert Burton>**: Sure. This is Bob Burton. Looking at TDR mods, which are the most significant part of the mods that we do. In 2009, we did about 686 million of those; 435 home equity, and 250 in mortgages. We're running about 40 million a month in home equity mods, and about 25 million a month in first trustee mods. What we're targeting, particularly in home equity, is a 50% reduction in payment. And we think that significant reduction in payment has really helped to produce a very strong re-delinquency performance that we feel very good about.

**<Q – Howard Chen>**: Okay. Thanks. And then just a quick numbers cleanup. What's the starting point you're using for expenses? As I know, there's a bunch of onetime items in 2009, whether it be like FDIC insurance premiums, or other stuff like that?

**<A – Bruce Nolop>**: I would say that definitely fourth quarter is abnormal. That would not be the run rate that we would start with. Probably more in the nature of the average. In other words, if you take the 2009 operating expense and just divided that by four; that would be kind of the run rate we would begin with. And when we talk about being modestly down, we're looking at 2010 compared to 2009. Not necessarily every quarter or every line item.

**<A – Robert Druskin>**: So to just follow up, just to make sure, we're not giving ourselves the benefit of saying we're going to reduce it, ignoring the FDIC is there. It's an operating expense, there's nothing we can do about it and so we're going to manage down 2010 versus 2009 year-over-year.

**<Q – Howard Chen>**: Okay. Thanks. And then just finally, can you just confirm what the diluted share count heads to when the firm turns profitable?

**<A – Bruce Nolop>**: 2.9 billion is the approximate number.

**<Q – Howard Chen>**: Great. Thanks so much for taking the questions.

**<A – Robert Druskin>**: You're welcome.

Operator: Thank you. Next question comes from the line of Michael Hecht with JMP Securities.

**<Q – Michael Hecht>**: Hey, guys, good evening.

**<A – Robert Druskin>**: Hi.

**<Q – Michael Hecht>**: Any update on the – just the CEO search? Maybe you can help us with the characteristics you and the Board are looking for. And is it taking longer than you thought, and when do you expect to wrap up the search?

**<A – Robert Druskin>**: Well, this is Bob. I would say, we've said that we've made meaningful progress, which is in fact true. We have a preferred candidate now. There's only so much you can say about this without our general counsel saying something to me, but we have a preferred candidate in our sights. We're going through what I would call some logistical issues, and we – our intention is to have an announcement in the near future.

Now, if you ask me what characteristics are important? I would tell you it's someone with a relatively long horizon. We don't – we're not looking for someone to come in for a year or two. It's someone who has got to have a strong background in financial services, someone who is very comfortable with technology and has some technology of substance in their background, and someone who understands retail financial services in particular. Those are the kind of

characteristics we were looking for. I would tell you, too, that we have seen enormously attractive candidates.

**<Q – Michael Hecht>**: Okay, great. No, that's very helpful. And then on the divestiture front, I'm just wondering if any other divestitures planned? Nothing specifically I know you can probably say, but just generally to further bolster capital ratios? It seems you've had a few more small deals here and there, but are you guys largely done on the divestiture front or are there other things you guys can do?

**<A – Robert Druskin>**: Well, I don't think we – the policy is we don't talk about potential acquisitions or divestitures, so I'm going to have to – I'm afraid I'm going to have to hide behind that one.

**<Q – Michael Hecht>**: No, that's fair. And then just the last one from me. DARTs in the month of December, looking at just the U.S. DARTs only, I think they fell about 8%, December versus November, so maybe a little bit weaker than what we've seen out of some of the peers. And what we've heard from others is that January has been pretty strong so far. Ameritrade in particular, I think noting they've seen almost a 20% increase. Any reason to think you guys are seeing anything different on that front?

**<A – Robert Druskin>**: No, there's not. We're actually a little bit stronger than that, but in that same ZIP code.

**<Q – Michael Hecht>**: Okay, great. Thanks.

**<A – Robert Druskin>**: You're welcome.

Operator: Thank you. Next question comes from the line of Rich Repetto with Sandler O'Neill. I'm sorry, he must have dropped off. Next question comes from the line of Matt Fischer with CLSA.

**<Q – Matt Fischer>**: Real quick, just on the – you said you wanted to strengthen long term investor. Do you have any specific plans there, whether it's branches or build out an RAA franchise? Could you kind of give some color there?

**<A – Michael Curcio>**: Yes, hi. This is Mike Curcio again. We will, we always look at how many branches we want, but it's more of building easy-to-use, easy-to-buy, and easy-to-invest products. So we're pretty happy with our branch structure now. I could see in the future maybe 10 more branches we'd look at, if we looked out the next three to five years. We are not going to be – have a national RAA business like our competitors do. So it's really based on all our product mix.

So we're really focused on – in the last year we had Online Advisor. We have the Investor Resource Center. We really beefed up all our retirement plans, and you'll see a lot more of that. And tied into really changing the focus of the business where the last couple of years it was more on keeping the customers we have. Now it's going to be really going after share of wallet play. And we've seen some modest success at the very beginning of that initiative in '09, and that's going to continue and strengthen this year.

**<Q – Matt Fischer>**: Okay. And then just back to the restructuring charges. You mentioned 15 million in the first half of 2010. Any color in terms of whether that's more heavily weighted in the first quarter, or how we should think about that?

**<A – Bruce Nolop>**: Yeah, it would – we expect to it be predominantly in the first quarter with possibly some spill over in second. And that would be the extent of the charges for the year.



<A – Robert Druskin>: And what we've said before, I just wanted to reemphasize. We think these restructuring charges, fourth quarter '09, first quarter 2010, are good investments for us because the recapture for that should be about a year.

<Q – Matt Fischer>: Okay.

<A>: Yes.

<Q – Matt Fischer>: Okay, thank you.

<A – Robert Druskin>: You're welcome.

Operator: And our final question comes from the line of Mike Vinciguerra with BMO Capital Markets.

<Q – Michael Vinciguerra>: Let's sneak one more in here at the end. Just a question on the first lien book. Are you guys at all surprised by the continued trends in that book? With the delinquency rate now 16.5%, are we starting to see any signs that the book itself is improving, or is that kind of trending along with what you guys had anticipated?

<A – Paul Brandow>: Right, so this is Paul Brandow again. Actually we're actually relatively constructive here. If you noticed that during the course of 2009, our – the special mention delinquencies actually declined and even in the fourth quarter, which is typically, as you know, a very difficult one from a seasonal perspective, delinquency levels were flat.

So we've always expected that the first lien portfolio would improve more slowly than the home equity, because it's less seasoned and because, frankly, it was a relatively high quality portfolio in terms of LTVs and therefore took longer for the housing market declines to affect that portfolio.

But quite honestly, we were very constructive about what we saw in terms of delinquencies and payment trends in the fourth quarter. And there's nothing that we've seen so far, again, as Bob mentioned, we're not through the month yet, but there's nothing we've seen in the daily delinquency numbers that we get for either our home equity or our first lien portfolio that would cause us to change that view.

<Q – Michael Vinciguerra>: Okay. And the severity levels when you're actually having to repossess – can you give us a sense for how those are shaking out?

<A – Paul Brandow>: Yes, most recently, it's in the home equity – in the first lien portfolio, it's about 40%, 40.

<Q – Michael Vinciguerra>: Okay. Great. Thank you very much.

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**Robert Druskin, Chairman and Interim Chief Executive Officer**

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Okay. If there are no further questions, I'd just like to thank everyone for joining us tonight. We feel good about the progress that we made last year. We look forward to continuing that progress in 2010 and we'll speak with you again next quarter. Thanks very much.

Operator: This does conclude today's conference call. You may now disconnect.

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