MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the E*TRADE Financial Corporation's third quarter 2008 business update call. At this time all participants have been placed on a listen-only mode. Following the presentation, the floor will be open for questions.

I've been asked to begin this call with the following Safe Harbor statement. 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 reports it periodically 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 October 21, 2008. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statements made in the presentation.

In 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 etrade.com. This call is being recorded. Replays of this call will be available via phone, webcast and podcast beginning today at approximately 7:00 p.m. Eastern Time. The call is being webcast live at etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

I will now turn the call over to Don Layton, Chairman and Chief Executive Officer of E*TRADE Financial Corporation, who is joined by Bruce Nolop, Chief Financial Officer, Bob Burton, President of E*TRADE Bank and other members of the E*TRADE management team. Mr. Layton, please go ahead.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you and welcome to our third quarter conference call. It comes in the midst of unprecedented financial turmoil and equally unprecedented government actions to deal with that turmoil. Our presentation today has four parts. First, I will review three things: one, a summary of how our customer operating business performed; two, the latest on credit risk and reserves; three, and how we are doing on our capital plan. Second, Bruce Nolop will go over the third quarter financial results. Third, Bob Burton will discuss our credit management and risk mitigation initiatives, and I will then return to talk about some forward-looking issues, in particular our participation in the U.S. Treasury's TARP program.

As you know, our strategic objective in 2008 was to focus on maintaining the demonstrated strength of our customer franchise, de-linking it from our balance sheet issues. Q2 showed that this de-linking was effective, and I am happy to report that the franchise has performed well and competitively in Q3, despite the market and economic stresses that appeared, especially late in the quarter. Retail segment revenue was up. Retail accounts reached a new record and have been coming in particularly quickly of late. DARTs were up, enhanced by the high volatility of the markets late in the quarter. Net new customer asset flows were also clearly positive.

I would like to point out two additional items of strategic significance. Our net new accounts continue to have a strong mix of new brokerage accounts rather than deposit accounts. This absolutely reflects our renewed focus upon our core investing customer, a trend you should expect to see more of. Also total customer cash and deposits, despite all the market stresses, was roughly flat with last quarter, and the cost advantage component of these funds, mainly sweep deposits, actually grew slightly. In addition, this all happened against some of the most volatile and difficult market conditions in decades. Record levels of transactions, users and other market-related activities were all successfully handled by our technology, service and operations teams. We

continue to be recognized for our high-performing and reliable platforms, even during such stressful times.

Lastly, our strategy to keep the core franchise strong is demonstrated by our continued level of market visibility and product innovation. This quarter we successfully launched our mobile product for the BlackBerry and made significant enhancements to our Power E*TRADE Pro platform with the launch of our Strategy Scanner and Streaming Sector tools. Our advertising campaign featuring the E*TRADE baby continues to successfully reinforce our brand message, drive new account growth and win industry acclaim. More evidence of this commitment and focus is that SmartMoney rated us their top-rated online broker for 2008 and Barron's awarded us four stars in their survey.

Now let me turn to credit. I want to address three credit issues: the nature of the special review we did, a summary of the results and our forward-looking expectations. As announced in September, we performed a special review of our credit allowances. This review was designed to update and improve what we had previously been doing in two ways. One, take advantage of more data from this credit cycle rather than historic cycles in a variety of ways, as this cycle's data is now becoming substantive enough to employ considerably more than previously, and two, updating various underlying assumptions given the unprecedented uncertainties that exist today.

One example of such is an increase in the assumed severity for the first lien mortgages. The result was that we now have an expected forward-looking path of charge-offs in our home equity and the first lien portfolios which is somewhat higher than previously envisioned. Thus our Q3 provision reflects not only charge-offs in the quarter, it reflects the need to build up our allowance to include four quarters of higher expected charge-offs. To illustrate this, actual charge-offs for the quarter were only up $30 million over Q2, as compared to the provision expense, which was up 199 million. The new assumption is for charge-offs to be up by therefore approximately 40 million per quarter over the next four quarters relative to our prior assumptions.

At this point let me make some forward-looking comments about credit. First, delinquencies. We have previously stated home equity delinquencies, and I will focus on the 30- to 179-day at-risk buckets, were in low growth to flat mode. We are maintaining that status at this time. There was considerable noise in home equity delinquencies during the quarter, and we simply do not know if we might have already transitioned to a no growth or flat mode that is the peak. However, we are maintaining our view that at-risk delinquency levels will improve in the near future. First lien mortgage delinquencies continue to perform better than previously expected and remain in this low growth mode. We expect delinquencies for this portfolio – that is the first liens – to peak sometime in mid-2009.

Second, provisions. We strongly believe Q3 to be the peak quarter for loan provision, although we obviously cannot guarantee it. This quarter's provision included the cumulative effect of higher expected charge-offs over the next four quarters. I would also remind everyone that our portfolio of home equity loans has a limited 2007 vintage, but it is dominated by the older 2006 vintage. As a result, we expect to peak sooner than would most credit-challenged institutions. We expect provision expense to decline substantially over the next few quarters.

Third is charge-offs. For home equity loans, we view quarterly charge-offs similar to delinquencies – that is they are at or near their peak, with improvement expected during the next few quarters. At this point I would like to address our three-year home equity charge-off guidance, which covers the years 2008 through 2010. We previously announced that we would be somewhat above the high end of the 1 billion to $1.5 billion range. As of now, we believe it to be about 20% above the high end of the range, subject to all the uncertainties of any such forecast, especially in these volatile times. I want to note that given our three-quarters of actual charge-offs this year and the allowance as of September 30 for home equity loans, we have already provided for approximately three-quarters of the full three-year charge-off forecast.

For our first lien portfolio, please note that while our expected charge-offs over three years have increased, they will generate only a fraction of home equity losses in a size that is important to our earnings but not to our capital.

Next I want to address our balance sheet plan. Our five pillar capital plan, which I have described in fair detail in prior talks, continues to be aggressively implemented. Q3 in fact demonstrates how we are navigating the very stormy oceans of today's financial markets despite our credit issues, because we have been ahead of the curve in many ways. I will now go over this in some detail. Total gross loans declined this quarter by 1.2 billion or 4%, and we reduced our exposure to un-drawn home equity lines by another $700 million to $3 billion. This lowers risk and frees up capital.

Non-core asset sales have generated high levels of capital and cash at very shareholder-friendly terms. By deciding early, that is in Q1, to sell various valuable properties then, we were able to close on approximately $660 million of such deals in the third quarter with the sale of our Canadian brokerage and our equity stake in Investsmart of India.

Canada provided a pre-tax gain of $428 million and Investsmart generated a gain of $22 million. The gain from these sales was over the top end of our estimated range, and the foregone earnings from sales of the two properties were only about 4% per annum based upon the sale prices. Such sales were a key ingredient in developing a capital cushion to deal with uncertain times. In Q3 these gains offset almost the entire loan provision, even at the much enhanced level taken. With the asset sales and our other capital plan activities we have built up a substantial cushion to absorb our expected peak losses but also to deal with potential additional credit costs, clearly prudent in this year's environment.

This quarter we down-streamed $250 million to E*TRADE Bank via a redeemable preferred investment. This still left us with $665 million of cash at the parent at the end of the quarter. We decided to increase the investment in E*TRADE Bank because it had had two extra credit costs. One, we had the previously disclosed $154 million loss net of hedges on our Fannie and Freddie preferred stock. Please remember we did not hold these through the full collapse of the agencies, but sold out early and through the quarter, so that we only lost a bit less than half of the $330 million value we had as of June 30. Second, in the reexamination of our credit reserves we have had an extra large loan loss provision in this quarter of $518 million, up 199 million over Q2, substantially more than originally expected.

Given these two events, we decided to inject $250 million into the bank. The result was a well-balanced cushion, with approximately $0.5 billion of capital in excess of the well-capitalized level at the bank and about two-thirds of $1 billion of cash at the parent. I think you will agree that the depth of our capital plan and the quality of its execution is very well demonstrated and that we can absorb these two charges and still have such substantial cushions remaining.

I will also take this opportunity to mention some other factors in our capital plan. We continue to generate on a routine quarterly basis significant capital directly to E*TRADE Bank to absorb risk. Earnings at the bank before credit costs were $188 million during the third quarter. This generates capital to partially offset credit losses and is in the previously predicted range of 180 million to $200 million per quarter. Regulatory capital requirements are reduced by 50 to $100 million for every 1 billion of loan reduction. Our outstanding loan balances declined by approximately $1.2 billion in the third quarter. Thus in the modeling of our capital strength of the bank, earnings generation and loan prepayments provide a very nice wind at our back each and every three months of a ballpark figure of about $0.25 billion. And I note that bank liquidity remains strong as we have increased cash held on the balance sheet to over $2.3 billion and available borrowing capacity at the Federal Home Loan Bank which is over $10 billion.

Our balance sheet repair initiatives also apply to the parent company. We have a multi-faceted plan to reduce the debt at the parent and thus reduce our interest burden on our earnings and our

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liquidity. We have reduced our parent debt by over $150 million so far this year. We however did no – I repeat, no – 3(a)(9) debt-for-equity exchanges in the third quarter, as the relative prices of our equity and bonds made it unattractive to do so. We are very conscious of the cost of capital and shareholder dilution issues.

We will opportunistically reduce debt further this year, carefully weighing the cost of doing so. We have $450 million in mandatory convertible notes that will become common next month. The $600 million combination of the year-to-date debt reduction and the conversion of the mandatory notes next month would represent around $38 million in annualized interest that we won't have to pay in 2009. We will continue to examine our debt reduction alternatives in the fourth quarter opportunistically. And as I mentioned previously, we have almost two-thirds of $1 billion in cash at the parent.

Let me repeat – this balance sheet plan was designed to start with decent cushions at the bank and the parent, then generate large amounts of capital from internally-generated pre-credit earnings at the bank, and build parent cash via non-core asset sales. We built cushion into the plan to absorb uncertainties and also to absorb the inevitable peak in loan provision. So far in our opinion it seems to be working well. And with that I will turn the time over to our new CFO, Bruce Nolop, to take you through the numbers. Bruce, the former CFO of Pitney Bowes, joined us recently, and I know he is looking to working with all of you.

Bruce P. Nolop, Chief Financial Officer

Thanks, Don. During the third quarter we generated a net loss of 50.5 million on net revenue of $378 million. Earnings per share reflected a loss of $0.09, and the loss from continuing operations was $0.60. However, I want to reiterate that our results this quarter were impacted by three significant items. First, our revenue was reduced by 160 million for a loss in our securities portfolio, chiefly related to the sale of our Fannie and Freddie preferred stock. Second, we took a loan loss provision of $518 million this quarter. Third, we realized 450 million of pre-tax gains from the divestiture of our brokerage business in Canada and the sale of our equity stake in Investsmart. If we net these three items, they had a negative impact of 228 million, which is the reason we are showing a loss for the quarter. And the relative magnitude can cause us to lose sight of the strength of our underlying retail franchise.

The ongoing earnings power of the franchise can be seen in our retail segment results. Retail segment revenue of 406 million and retail segment income of 171 million were both up slightly from last quarter, and the segment's operating margin held steady at 42%. Our commission revenue this quarter increased 6% from the prior quarter, and our average commission per trade was up modestly over last quarter. We also saw a 12% increase in revenue from principal transactions, which tracked higher market volume. DARTs were up 7% from last quarter based on a very strong September and were roughly in line with the third quarter of 2007 levels.

Net new asset flows into the company continued at a solid $800 million this quarter. However, the volatility of this market has led to our customers de-leveraging and reducing their risk exposures. Margin calls are also up. Therefore, we experienced a decline in margin debt, down by 21% at the end of this quarter. Customer cash was relatively steady this quarter, but the mix shifted slightly toward low cost sweep deposits and away from higher cost certificates of deposit.

We believe that our deposit flows will be helped by the new FDIC insurance guarantees. We estimate uninsured deposits, including the effect of the FDIC limit increase, to be 1.4 billion as of September 30, which is down sharply from 4.3 billion in the second quarter. Therefore, 95% of our bank customer deposits are now covered by FDIC insurance, and this makes us feel good about the stickiness of our deposits going forward.

Another highlight in this quarter's results was a 7% decline in operating expenses from last quarter, which illustrates the substantial progress we are making toward lowering our cost base. Compensation expense declined about 12 million from the prior quarter, and advertising expense also declined about 12 million, which was due to a planned seasonal reduction in spending. I also want to emphasize that our ending head count for continuing operations is down 5% from last quarter.

Now I want to give you some additional information about our loan loss provision. We increased our reserves by $238 million this quarter, and our total reserve at quarter end is now 874 million. This reflects net charge-offs of 279 million during the quarter, which compares with 249 million last quarter. Our significant build of reserves this quarter took our allowance as a percentage of total gross loans receivable to 3.3%, which is up from 2.3% last quarter and 0.6% last year, and this includes an increase in each of our loan categories.

Total delinquencies for the quarter were up 12% from last quarter and 30- to 179-day delinquencies, which is what we characterize as the at-risk portion, were up 8%. We exclude over 180-day delinquencies from our at-risk focus because these loans have already been written down to their recovery value and thus won't consume our loan loss allowance.

And we can break down the loss provision by loan category as follows. Our one to four-family mortgage at-risk delinquencies were up 10%. However, the at-risk delinquencies as a percent of the loss reserve for this category was down dramatically. The at-risk delinquencies in our home equity portfolio were up 5% to 561 million, but the at-risk delinquencies as a percent of the loss reserve declined to 81% from 97% last quarter. The at-risk consumer and other delinquencies were up 27%, but this represents only an $8 million increase. This category of loans also saw a decline in at-risk delinquencies as a percent of the loss reserve.

Finally, I want to highlight that when we look at our total loan portfolio, our at-risk delinquencies as a percent of our allowance has decreased to just 139% from 176% last quarter. Now I will turn it over to Bob Burton to discuss risk mitigation.

Robert V. Burton, Chief Operating Officer, E*TRADE Bank

Thanks, Bruce. Our management of the loan portfolio looked at three key elements that continued to reduce our portfolio risk. First, this is a runoff portfolio, with minimal addition since early 2007. Therefore, we continue to benefit from prepayments that have reduced our gross loans 19% from a year ago. Across all our portfolios we saw a 1.2 billion or 4% reduction in unpaid balances in the third quarter. We expect our existing portfolio to have runoff of approximately 4 billion over the next 12 months.

Second, we expect to see continued benefits driven by the favorable vintage composition of the portfolio. Our 2006 vintage is the main driver of loss in the portfolio. Now over 27 months old, only 49% of the original purchased lines remain as outstanding balances. As we've discussed previously with respect to the home equity portfolio, the 2007 vintage represents only 12% of the total, and because we tightened up our credit criteria earlier than many others, the 2007 vintage has actually performed better than 2006, very different than what we see in the rest of the industry.

Finally, our loss mitigation efforts continue to accelerate. We've taken our exposure to un-drawn home equity lines from over 7 billion a year ago to 3 billion at the end of Q3, down 700 million from last quarter and better than expectations. Most importantly, the remaining 3 billion exposure is low risk, with virtually no delinquency and strong housing and credit characteristics. For example, this 3 billion in open lines has an updated CLTV of only 69%. Our efforts to put back loans to sellers has resulted in approximately 118 million in repurchases since our effort began, 25 million of that in Q3.

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In addition we've significantly increased the intensity of our collections and loss mitigation efforts working with our third-party servicers, both through using new collection partners and through more dedicated and intense collection efforts. So as the portfolio ages and our mitigation efforts continue, we expect that our delinquencies, charge-offs and provisions will peak earlier than many of our bank competitors. With that I'll turn it back to Don.

Donald H. Layton, Chairman and Chief Executive Officer

Thanks, Bob. Let me wrap up with a couple of key points of a forward-looking nature. First, the US Treasury's TARP program. This is a fast-moving series of events, and exactly how it all works is being developed in real-time. In addition to the increase in deposit insurance we talked about earlier, the government's capital purchase program is of interest to us. We believe we qualify for the program and are submitting our application to it. The program has the potential to significantly improve the balance sheet strength of E*TRADE at both the bank and parent levels. We will update you as we learn more and as appropriate.

Second, the unprecedented economic and financial markets events which began in September continued into October. Thus October month-to-date DARTs are quite high, and we are opening up new accounts at a considerably higher than normal pace. Also similar to September, margin loans continue to decline, as investors have had margin calls and are de-leveraging their personal finances. It is unclear how far into the fourth quarter these circumstances will continue.

In September we said that our return to quarterly profitability later this year could be at risk given the state of the housing market, which continues to set historic records in how bad it is. Thus we are not predicting quarterly profits in the fourth quarter. Unfortunately, these events provide a very subdued backdrop to our view of volumes and market conditions in 2009. As you will recall, we announced back in April that we were going to cut expenses then to reflect the then consensus view that the US was entering recession, and we did so to the tune of $50 million per annum in compensation expense, fully completed by mid-year. This will now stand us in good stead, as that recession is, we believe, fully upon us. We will update you more on our views of 2009 along with our announcement of the fourth quarter earnings. But we expect to have a continuing emphasis on productivity and overhead reduction as we budget for the New Year.

As to returning to quarterly profitability in 2009, the substantial decline in credit costs that we are forecasting gives us a good start on this, but we want to see how business conditions, highly uncertain at this point in time, are evolving before being more specific as to the timing. In the meantime, our customer business continues to perform well, and we will focus on developing that franchise, which provides the true value for E*TRADE stockholders in the future. With that we are happy to take your questions. Operator, over to you.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Mike Vinciquerra from BMO Capital Markets.

<Q – Michael Vinciquerra>: Thank you, good afternoon.

<A – Donald Layton>: Hi Mike.

<Q – Michael Vinciquerra>: The main question is really just to look at where you stand in terms of your capital. Obviously you've padded the balance sheet pretty significantly, but when you look out and you've done all this new analysis on your balance sheet, do you feel comfortable that the progression you're going to have in terms of earnings generated from the brokerage business along with the capital you have in the balance sheet is going to be more than substantial to handle the losses that your current analysis is projecting?

<A – Donald Layton>: The answer is yes. Given the forecast we have and given the cushions we have on the balance sheet, we think we can handle those -- the losses and losses higher than we forecast to a pretty strong degree. Obviously the future isn't knowable, but if you do the numbers over the kind of timeframes we're talking about, we seem to have lots of cushion to deal with the credit issues. In addition, even ignoring the government's TARP program, we have access to additional sources of capital which we could undertake if we so wish to do so. And so we feel pretty confident that we can make it through our credit issues and be a thriving brokerage company in the future.

<Q – Michael Vinciquerra>: Okay, very good. And then just a follow-up on one thing you said in your remarks. Maybe you can clarify, you talked about one of the portfolios it sounded like being at peak delinquencies and another not. Could you just clarify where you see home equity and first lien, just so I'm clear on that?

<A – Donald Layton>: Yeah, home equity is the one where we may be very close to the peak, and we think it, of delinquencies, and we think it will happen soon, a lot of our reason being not just behavior of delinquencies but the vintage analysis we have talked about. For first lien mortgages, we see the peak of delinquencies not until later, saying sometime mid-dish 2009.

<Q – Michael Vinciquerra>: Thank you very much.

Operator: Our next question comes from the line of Eric Bertrand with Barclays Capital.

<Q>: Hey guys, on the TARP purchase plan, could you let us now how much you're going to be applying for? And would you consider using this fairly low-cost financing to swap out some of the other debt, or do you think you're going to use it as additional cushion?

<A – Donald Layton>: As you know, the program is set up to offer, as much as we can figure out, 1% to 3% of risk-weighted assets. For us the 3% number is modestly over $800 million. So we are – our discussions with our regulator is for, if you will, roughly the full amount, rounding off to $800 million. As you state, it seems to be attractive capital in terms of its terms. What would we do with it, the answer is some portion of it would be placed in the bank, where the credit loss and customer confidence issues would reside, but other components of it, at least as far as we know now, could be retained at the parent, enhancing the, that two-thirds of $1 billion of parent cash I mentioned. Would we use some of it to swap out and pay down other debt, some of which is trading at quite a bit of a discount? The answer is that is possible. That's a realistic alternative. I will let you know, though, that the timing of that would probably not be immediate. We would be looking to see that the provisions really did come down over several quarters to be sure that that cash, which provides

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a cushion for us, would not be needed for credit and therefore could be used for other purposes including debt repayment.

<Q>: That sounds prudent. And on the actual TARP itself or the actual purchases of troubled assets, do you think it's potential for you to actually sell some of the HELOC assets into that, should you find a price, or would you expect to actually run off the portfolio as previously discussed?

<A – Donald Layton>: Yeah, our planning assumption is that this is a runoff portfolio. We do not know enough about how the actual asset purchase would work in so many ways, we just have no evidence to come off our basic notion, our planning assumption that we will hold it to maturity.

<Q>: Thanks.

Operator: Our next question comes from the line of Howard Chen with Credit Suisse.

<Q – Howard Chen>: Hi, everyone.

<A – Donald Layton>: Hi.

<Q – Howard Chen>: Good afternoon. Thanks for taking my questions. Don, during the quarter you down-streamed $250 million of preferred equity to the bank. You mentioned the 665 million in cash at the parent at quarter-end, but can you provide a more specific sense of how much flexibility you have to continue down-streaming if we see further deterioration in the macro environment?

<A – Donald Layton>: The $665 million strategically serves a few purposes. One, it's there to finance the cash needs of the parent itself. Number two, it's available for down-streaming, and number three, as mentioned just in the last question, possibly at some point using it as, on a cash basis to repurchase debt. Other than that, it is our judgment and whether to downstream it or not. There are no particular covenants or issues restraining us other than common sense and judgment. Although I do note, of course, we would be talking to our regulators on that. On the other hand I don't know many bank regulators who would object to you putting more capital into a bank.

<Q – Howard Chen>: Okay. I guess asked another way, how much capital do you think you need right now to fund the parent co?

<A – Donald Layton>: You mean its own cash needs?

<Q – Howard Chen>: Correct.

<A – Donald Layton>: That's actually a variable question, because the biggest cash need in the parent is for debt interest expense, and the biggest cash interest expense is the interest on the Citadel debt, and as was disclosed long ago, the first four coupons on the Citadel debt can be paid not in cash but payment in kind. So we could use that money, or we could use some of the cash to pay it or not, at our discretion, and that's basically the scenario. Other than that, the parent would not need – net, the parent doesn't need much cash other than paying the Citadel interest coupon.

<Q – Howard Chen>: Okay. Thanks. And then Bruce my follow-up, you touched on the workforce reductions during the quarter. Does the 3Q expense run rate include most of the benefit of those reductions and can you speak about the potential for further expense reductions, is the heavy lifting done? Or do you see more – a lot more opportunity for further operational leverage here?

<A – Bruce Nolop>: Yeah, the run rate would continue into the fourth quarter. So in other words the full benefit of the head count reduction has not passed through as of yet. In terms of additional cost cutting, I'm not sure if it's heavy lifting, but I will say that we are in a mode of continuous improvement, and as we look at the budget for 2009 and in particular the uncertainty of the market,

we'll be looking at areas that we can trim and also areas that can be considered from a contingency point of view.

But the one thing I would say is that what we don't want to do is in any way compromise the ability of the company to really strengthen its competitive position. As we're seeing the end of – the light at the end of the tunnel of the loan losses, we want to make sure that we really can thrive and prosper coming out. So as a CFO, my job is to make sure we keep the right balance between reducing costs but also preserving flexibility and the ability to grow into the future.

<Q – Howard Chen>: Okay. Thanks so much.

Operator: Our next question comes from the line of Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Good evening, guys.

<A – Donald Layton>: Hi, Rich.

<Q – Richard Repetto>: Hi. I guess the first question is could you walk through going from the 600 of excess capital to the 516? Because I'm just a little – I'm trying to see how much the wind at your back or the capital efficiencies, I was confused by footnote one a little bit, and then you also said by yearend last quarter that you'd be at 700 to 800. Does that go away with sort of this reviewing of the loss on the loan portfolio?

<A – Donald Layton>: Yeah. Okay. Let me take those in reverse order. Our December 31 guidance for the excess risk capital at the bank is changed and is variable at this point. If, it's going – it should not particularly increase if we do not do anything related to new capital, in particular the government program. So we're talking about a 500, 600 level by the end of the year if the government program does not come in.

If the government program comes in and we receive money, a significant amount of that would be down-streamed, and as a result we would probably have much in excess of that level. So, we have, there's quite a variable answer there. So that's as much as we can tell you. It will vary under – we don't really want to see anything under $0.5 billion, quite honestly.

Number two, kind of the walk, it would get a little complicated, but you basically have the roughly $0.25 billion increase in capital from the earnings pre-credit cost and the shrinkage in the loan portfolio. You then have the 250 – that's 500 coming in. On the outside you would have the loan provision of the call it 500, and you would have the outflow of the Fannie/Freddie loss of 150. So you have a – so that's 650. So, add, you figure those out and the result is you're down about 150, which is what happened.

<Q – Richard Repetto>: Understood. Okay, that's very helpful. And my one follow-up here, on the investment securities portfolio, it shows that on the CMO side, 101 moved into the below investment grade relative to I believe the prior quarter. Could you talk about that and what the expectation on that 101 million of CMOs?

<A – Donald Layton>: We started talking much earlier this year about concerns about the CMO portfolio, which at that point was officially rated almost all AAA, and we announced I believe it was at the end, I remember it was at the end of first quarter, I think it was the end of first quarter, that we were starting to do impairment testing on individual securities in the portfolio, not waiting for the official downgrade by the rating agencies, but where we thought that they had, we had concerns about the securities or it was on CreditWatch, or some forward-looking indicator. And we indicated at the time we were trying to get a little bit ahead of the issue by doing that rather than waiting for the downgrades. So we've consistently during the year, each quarter, taken impairment on testing on securities in advance of their downgrades. This quarter a lot of the downgrades caught up, and

you're seeing the result. But it's not, from our perspective, there was no big change through the downgrade. That was a lagging indicator of the impairment which we had already been attesting for. So, the – and the impairment this quarter was only $18 million, I believe flat with the prior quarter.

<Q – Richard Repetto>: Okay. That's very helpful, Don. Thank you.

Operator: Our next question comes from the line of Matt Snowling with FBR Capital Markets.

<Q – Matt Snowling>: Yeah, hi. Can you discuss how you're positioned for further rate cuts in terms of your balance sheet?

<A – Donald Layton>: In terms of our official asset liability position, we are slightly positive if rates are cut, but we want to give a caveat. Normally when you talk about rate cuts you think of the whole yield curve moving up and down. In this particular case, while rate cuts from the Fed might be official, we do know, as has been well covered in the media, that other rates like LIBOR and such have been very erratic due to credit issues and liquidity issues between banks. So we disregard the whole possibility as being relatively minor impact of various rates moves, because so far LIBOR is not particularly following in any lockstep way, the fed funds rates.

<Q – Matt Snowling>: All right. Well let me ask the question in a different way. Where did you end the quarter in terms of your net interest spread?

<A – Donald Layton>: I didn't catch the – can you repeat that?

<Q – Matt Snowling>: At the end of the quarter, what was the net interest spread?

<A – Donald Layton>: At the end of the third quarter?

<Q – Matt Snowling>: Right. Not from the average, but how did you exit the quarter?

<A – Donald Layton>: The spread was slightly lower in September than August, if that's your question.

<Q – Matt Snowling>: Right.

<A – Donald Layton>: But I just want to reiterate that we would be a beneficiary from a rate decline. And so don't read into that, that that's a trend.

<Q – Matt Snowling>: Okay. Thanks.

Operator: Our next question comes from the line of Prashant Bhatia with Citigroup.

<Q – Prashant Bhatia>: Hi. The charge-offs I guess continue to be higher than you originally expected, the profits are lower. The early delinquencies continue to rise really in all categories if you look at the loans, and the reserves that you have don't really cover the annualized charge-offs on the home equity side, and bank capital's declining. So what is it that you would need to see to make you determine you need more capital? Is there a specific number that you're looking at or what's going to drive you to raise capital?

<A – Donald Layton>: Okay. There's two issues there. Number one, the current allowance is our estimate of the next four quarters of charge-offs for home equity and first as per our accounting policy. It does not equal four quarters of the most recent charge-offs, because as stated we believe we are near the peak in delinquencies and charge-offs, and of course the provision we're calling the peak the third quarter. Given the very low growth of these delinquencies of late in the home

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equity, we think it's, the peak, it's justifiable to think that the peak is pretty close. That's number one.

Number two, capital at this point, in this environment, every financial institution is interested in capital. And so we are as well. We, with the government program or without the government program, would be looking to increase our capital cushions. We have a wide variety, and Bruce, as the new CFO, is studying them, of alternatives, we think, which we think are shareholder-friendly, and if necessary we would embark upon them, although I note that the size and attractiveness of the government program kind of overwhelms our other alternatives in terms of being the preferred one.

<Q – Prashant Bhatia>: Okay, I guess asked another way, what -- you think you're at peak, but I think you had thought that prior as well. What's the margin of safety? How comfortable are you going without capital? Because as we've seen at times when you truly need it, if you wait too long, it might be too late?

<A – Donald Layton>: First of all, we've never called the peak of provisions yet. This is the first time we're doing that. In fact I think we specifically didn't do it in the past. Second, we do have some scenarios run of trying to, what if things are much worse, and we have to do that internally, and we believe our current capital cushions, again half a billion at the bank and the two-thirds of a billion at the parent are sufficient to cover those kind of reasonable downside scenarios. Out of an abundance of caution, again, given the overall environment, we're interested in other capital not only as a defensive measure, but quite honestly as we come out of, as Bruce said, the light at the end of the tunnel, and if we really do peak earlier than others, we think there might be opportunities to deploy that capital as we're healthier, when other firms are not yet necessarily healthy.

<Q – Prashant Bhatia>: Okay. And then just in terms of you talked about the quarterly profitability, you weren't sure about the past there, in 2009, do you think you'll be profitable on a full-year basis in 2009?

<A – Donald Layton>: As we've said, we'll talk to you more at the end of Q4. The business environment is variable enough it's hard to make predictions like that this much ahead of time.

<Q – Prashant Bhatia>: Okay. Thank you.

Operator: Our next question comes from the line of Mike Carrier with UBS.

<Q – Michael Carrier>: Thanks guys. First a question on just the credit and capital, your allowance is around 3.3, lower than your net charge-off ratio and kind of in between the delinquencies, depending on what you're looking at, and realize the difference in your portfolio in terms of the vintage '06 weighting, but the entire industry isn't all weighted into '07 either. So your outlook is fairly different than some of the companies, the management teams that we've heard on the bank side. So just in terms of the changes that you made in the modeling assumptions, like what are some of those assumptions, and in particular I guess what are you expecting on kind of the unemployment rate going forward?

<A – Donald Layton>: We were asked last quarter, how does the unemployment rate directly impact our modeling of loan loss provision and charge-offs? And the answer is it doesn't. There is no reasonable quantifiable linkage from unemployment directly to an estimate of charge-offs going into the future. Instead, the unemployment -- the notion of, that you're getting out with unemployment is built into things that are more directly linked, such as roll rates staying high, which we have assumed more than in the past, the period -- during the period which entry level delinquencies continue to be high, and things like that. So that's how they work in, and we -- this process, you have to work in this process other than to have just an arbitrary number that kind of comes of out thin air. So that's how we reflect the economy, and realizing that where any kind of

forecast for four quarters much less all three years has, as I've said, the usual uncertainty associated with it. That's why we're keeping a substantial additional set of cushions at the bank and the parent to deal with those uncertainties.

<Q – Michael Carrier>: Okay, and then just one follow-up. In the balance sheet, just curious why the segregated cash would decline by over 50% in the quarter?

<A – Donald Layton>: You got me in that detail.

<Q – Michael Carrier>: Okay. We can follow-up.

<A – Donald Layton>: Excuse me. I'm being told that was the sale of Canada coming out of the books.

<Q – Michael Carrier>: Okay. Thanks.

Operator: Our next and final question for today comes from the line of Brian Bedell with Merrill Lynch.

<Q – Brian Bedell>: Hi. Thanks for taking my call. Just on the home equity assumptions, does the home price depreciation factor into that analysis, and what would be your -- if so, what would be your forecast of peak to trough home price depreciation on an aggregate basis throughout the portfolio?

<A – Donald Layton>: The answer is home price depreciation is in there. It particular, it impacts the first lien portfolio for assumption if you actually go into foreclosure what you will get. We use -- rather than have our own estimate, we use the Case-Shiller Futures, and it's calling for a further 10% decline in roughly -- in the next 12 months in house prices. That's a national average. We do use the numbers by the various metropolitan regions that they carry.

<Q – Brian Bedell>: And does that factor into the home equity portfolio as well?

<A – Donald Layton>: The answer is yes.

<Q – Brian Bedell>: Right. Okay. And then, just on the TARP, I guess two things there. I mean, number one, are you considering selling investment securities into the TARP rather than the home equity portfolio? And I guess the reason I would say that is on anything that's a significantly troubled asset, wouldn't you have to take a significant mark-to-market that would hit your capital immediately, and therefore would it be better to leave an accrual portfolio to bleed over time where you could protect against it over slower provision cycles...

<A – Donald Layton>: You have made a statement that has a lot of true parts to it. But I'll repeat our basic comment. The actual asset sale program is so unspecified at this point how it's going to work with respect to securities, how with respect -- work with respect to whole loans, we don't know enough to have an intelligent opinion. Therefore our working assumption, everything considered, is we will continue to own all these -- the whole loans until maturity.

<Q – Brian Bedell>: Okay, great. Thanks very much.

Operator: That concludes the question-and-answer portion of today's call. I will now turn the call back to Don Layton for some closing comments.

Donald H. Layton, Chairman and Chief Executive Officer

Okay. I want to thank everyone for participating. There are three themes that I think everyone should keep in mind for this quarter, dominating the results. Number one, the actual underlying customer business is doing fine, participating competitively. It is not particularly impacted by our balance sheet issues. That was a great concern back 9 months, 12 months ago. It is not anymore.

Number two, we took our larger credit positions. We've explained to you the nature of the review. I want to note the comment that if our three-year forecast is accurate, it will have the uncertainties of any forecast. We have put the bulk of the problem behind us with the approximately three-quarters of the three-year loss already charged off or provided for.

And the third comment is that our capital plan is working well. We have built up much more substantial cushions than I believe people thought was possible on more shareholder-friendly terms during this year so that we can absorb those extra charge-offs and still have the very substantial cushions. And that -- other than that I think it's a wrap. Thank you very much for listening.

Operator: We thank you for your participation in today's E*TRADE Financial Corporation third quarter 2008 business update conference call and ask that you please disconnect your phone lines as well as your webcast browsers. Thank you.

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