Operator: Welcome to E*TRADE FINANCIAL Corporation’s first 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 other forward looking statements. This call will present information as of April 17th, 2008. Please note that E*TRADE FINANCIALs disclaims any duties 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 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’ll now turn the call over to Don Layton, Chairman and Chief Executive Officer of E*TRADE FINANCIAL, who is joined by Robert Simmons, Chief Financial Officer, and Bob Burton, President of E*TRADE Bank. Mr. Layton, please go ahead.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you. And welcome, everyone, to our first quarter conference call. Today we are going to cover a weighty long list of topics as so much is going on for us. This includes a summary of earnings, a review of customer metrics, a summary of credit performance, a more detailed review of earnings by Rob Simmons and a quick comment on some loan portfolio risk-reduction actions by Bob Burton. I’ll then wrap up with comments on our capital and expense plans. Afterwards we are happy to answer questions.

The company generated a net loss of $91 million for the first quarter on total net revenue of 316 million. Included in these results was 234 million in provision for loan losses. As indicated in our prior quarter’s earnings call, a loss this quarter was expected. Included in the loss, the unusual operating revenues and expenses, are a fairly long list of noteworthy items which, in total, reduced earnings by about $35 million or $0.05 per share. These items included $9 million in additional provision expense associated with an acceleration of chargeoffs, the loans in the process of foreclosure and bankruptcy; $27 million in securities impairments related to our private label CMO portfolio -- I’ll touch on this more later -- 12 million in severance related expenses; $24 million gain on the sale of corporate aviation-related assets; and 10.5 million in restructuring-related charges. Our expectation is that we will return to quarterly profitability later this year.

As you all know the company has twin priorities right now: to return the core business to full competitive growth, and to strengthen our balance sheet. I am happy to report that the first quarter was strong on both fronts. With respect to the core business, we basically entered the quarter with a customer base that had been stabilized by our late November cash infusion. During the first quarter, we were able to transition from stability to the first stages of growth. Specifically we added gross new accounts of 305,000 and ended the quarter with a record 4.8 million total accounts.
In addition, and perhaps the best example of the return to growth, we added over 60,000 net new customers to the franchise this quarter, the most since the fourth quarter of 2005. It is important to note the distinction here between accounts and customers. The new customer metric represents brand-new relationships to the company. This is very impressive given all the disruption just a few months ago and a solid indication of the continued strength and appeal of the brand.

We also saw growth late in the quarter in our high-value target segment account base, which had been trending negative since November, further validation that we’ve turned the corner with respect to rebuilding customer confidence.

On the customer asset front we also saw some positive trends. While total customer assets declined in aggregate, proportionate to the market sell-off, our new customer asset flows turned positive late in the quarter. On the whole for the quarter, net new customer assets increased 300 million quarter-over-quarter after declining sharply last quarter. Total customer cash and deposit balances increased by $1.3 billion to approximately 35 billion.

Given the broad market weakness during the quarter, industry-wide trading activity was a little softer and our DART volume declined 11% from the fourth quarter. Given the customer disruption last fall, it is important to remember that these results are off a new base, which we estimate took roughly a 10% hit versus our previous activity run rate. Despite this, DART still increased 12% versus the year-ago period. The re-engagement we are seeing from customers across the entire base is encouraging. We view this as an indication that we have turned the corner and are back on a path to growth.

Turning now to credit performance, the biggest issue in strengthening our balance sheet is the actual performance in the loan portfolio. I’m going to go through the three portfolios at a high level, and then Rob will provide more of these specifics.

First, let’s start with the Home Equity portfolio. This is the largest portfolio in terms of our earnings and capital impact as expected losses are large relative to our capital base. When I came into the company, I found investors had a wide range of expectations as to the cumulative loss in this portfolio, anywhere from the low $1 billion range to multiples of that. Given the negative economic and market news during the quarter, investors justifiably assumed that the loss potential would trend higher, not lower. I am pleased to report that, with the first quarter behind us, the Home Equity portfolio is performing broadly in line with our existing expectations.

There are two reasons why we believe this performance remains relatively good. This is a high FICO portfolio, and we stopped making high-sale TV purchases in early ’07, thus avoiding some of the worst vintages and giving us more seasoning at this point in time. In short, the quarter seems to have -- to have been a good down payment on reducing the likelihood that losses in the Home Equity portfolio will balloon well past our expected levels despite continuing uncertainty in the market. We are therefore maintaining our three-year cumulative loan loss expectation of one to $1.5 billion.

Second, our one- to four-Family First Mortgage Portfolio. In contrast to the Home Equity book, this portfolio is actually performing somewhat worse than expected. Due to continued deterioration in home prices and therefore increased loss severity, chargeoffs have increased fairly rapidly, although off a very small base. While the rate of change is steep, the expected losses in dollar terms are comparatively low given our position in the underlying collateral. This is in contrast to Home Equity where losses are closer to 100% of principal in the event of a chargeoff. As a result the deterioration and rising chargeoffs for one- to four-family loans is more of an issue on earnings impact than a major capital challenge.
Third, let’s turn briefly to our consumer loans. Here we still have good news: delinquencies and chargeoffs are stable, and expected losses and provision needed remain minimal. This portfolio is a well-seasoned run-off portfolio and we do not expect any major changes here.

Now I wish to turn to credit issues as they are playing out in our securities investment portfolio. As you all know from our prior disclosures, our remaining securities were largely traditional bank portfolio investments, primarily agencies including Fannie and Freddie. We also had, as per those disclosures, a remaining 1.1 billion portfolio of private label collateralized mortgage obligations, virtually all of which were AAA or AA as of March 31. As part of our normal quarterly procedures we conducted an evaluation of our private label CMO holdings and identified approximately $180 million of bonds that showed potential for principal loss. This evaluation incorporated our revised view that the U.S. has entered a modest recession. We believe that our assumptions about the expected credit performance of these bonds are on the conservative side of market expectations. As a result of this review, we recorded a pre-tax impairment charge of $27 million in the first quarter.

At this point I would like to turn the call over to Rob for a more detailed review of the quarter.

Robert J. Simmons, Chief Financial Officer

Okay; thanks, Don. I would like to start off with some more details on the credit performance and then highlight a number of noteworthy items that affected the bottom line in order to help with prior and future period comparisons. With respect to our mortgage portfolio specifically, we experienced many of the same trends as the macroeconomic environment, while seeing some encouraging points within the Home Equity area, as Don already indicated. In the quarter, home delinquencies increased by 41 million over the fourth quarter, to 562 million. This marked the smallest increase in home equity delinquencies in six quarters. In addition, special mention loans, where the 30- to 89-day delinquent portion, actually declined by $14 million on an absolute basis, the first decline in two years.

It is certainly too early to count on this decline as the start of a positive trend, but it is encouraging to see an improvement in the early-stage portion of the delinquency pipeline. Given our view that home equity-related chargeoffs are more likely to increase before improving, we raised our reserve for these loans by another $22 million. We ended the quarter with 172% reserve coverage of nonperforming home equity loans.

Turning now to the one- to four-family portfolio, total delinquent loans increased 177 million to 655 million or about 4.5% of total growth loan receivables. Annualized net chargeoffs as a percent of average loans increased to 38 basis points from ten basis points in the prior quarter. Although this represents a fairly steep increase in terms of basis points, the dollar increase was $10.6 million, for a total of $14.6 million.

As we noted in today’s press release, a policy change this quarter accelerated chargeoffs for loans in the process of foreclosure and bankruptcy. This increased net chargeoffs in this portfolio by $8.3 million in the quarter. Excluding the effect of this change, total one- to four-family net chargeoffs were $6.3 million. As Don indicated earlier, rising losses in one- to four-family loans may be relevant to overall earnings production, but it is relatively de minimus to our total capital base. To reflect our cautious view on the economy and home valuations in general, we also continued to provision in excess of chargeoffs in one- to four-family loans, increasing our reserve for these loans by over $22 million.

Now let me turn to the income statement to provide some additional detail on the noteworthy items that we highlighted in our press release. Starting with revenue, we reported total net revenue of 316
million. This included provision for loan losses of 234 million, and a $9 million net loss on the sale of loans and securities.

As I previously noted, we continue to provision in excess of chargeoffs this quarter, resulting in a reserve build of $58 million. Depending on delinquency trends at some point, later in the year we would expect provision equal to or slightly lower than chargeoffs based on delinquency and loss severity trends. Clearly this will be meaningful to reducing the current headwind to revenue and earnings as a result of reserve building we have seen in recent quarters.

We also reported a loss on sales loans and security of $9 million, which was the net result of two factors: a gain of approximately $18 million on the sale of MBS securities, consistent with our balance sheet deleveraging strategy; and the $27 million impairment already mentioned.

On the expense side there were a few noteworthy items as well. Compensation and benefit expense was elevated due to increased severance-related expenses of approximately $12 million. We expect comp and benefits to remain at elevated levels for the second quarter before dropping to a lower run rate level in the back half of the year.

Other expenses of 17.5 million was lower than expected primarily due to approximately $24 million in gains in the sale of corporate aviation-related assets. Going forward, we’d expect this line to return to a more normalized run rate of around 35 to $40 million. The results also included a $10.5 million restructuring charge related to the exit of the institutional business and facilities consolidation.

Finally, in terms of our outlook we are maintaining a cautious and conservative stance. The first line of defense and straightest path to recovery is the strength and stability of our customers. And we have made great progress there. Next are the capital position and our ability to manage through loan losses. The actions we have taken have improved both of these areas and our plan will help to further solidify the franchise with time.

With that, let me turn the call back over to Don.

Donald H. Layton, Chairman and Chief Executive Officer

Thanks for that, Rob. In my six weeks here as CEO I have focused heavily on developing a robust capital plan. So far the first quarter shows we have been making some good initial progress on increasing our capital strength. Specifically the bank’s excess risk-based capital, which is the level above the regulatory well-capitalized threshold, has improved from 435 million at the end of last year to approximately 695 million at March 31. This translates into a risk-based capital ratio of 12.4%, which is now very high. In terms of the bank’s funding sources, we reduced wholesale borrowings, including stock loan, by approximately $5 billion through a combination of deleverage and growth in customer cash.

Funding for the bank continues to benefit from customer cash growth and nearly 11 billion in excess home loan bank borrowing capacity. In addition, we began to strengthen the parent company balance sheet by paying down debt which was reduced by $60 million in the first quarter.

We have also established an aggressive and professional risk remediation team devoted to the loan portfolio, with a specific focus on Home Equity. It is under the direction of Bob Burton who joined the firm last year and is now president of E*TRADE Bank and brings a lifetime of banking and mortgage experience. I would like Bob to go over some key items where we have made significant progress in reducing our risk profile in the loan portfolio.
Robert V. Burton, Chief Operating Officer, E*TRADE Bank

Thanks, Don. Over the first quarter we have conducted a thorough review of the loan portfolio to identify ways to help mitigate risk. In this difficult environment with little opportunity to create meaningful risk reductions of capital markets transactions, our focus is moved to generating risk reductions through operational action. Although we’ll continue to look for opportunities to use the markets, our plan and intention is to hold the loans, provide reserves as needed, and mitigate losses through the best possible execution of those operational strategies.

We currently have multiple projects underway that we believe can reduce this risk. The most meaningful of these is reducing our exposure to open home equity lines. That was a $7 billion exposure in September of last year. Through a variety of strategies, ranging from voluntary line closures, automatically freezing lines in all delinquent accounts, and proactively freezing lines on loans with materially reduced home prices, we have reduced open commitments down to 5.6 billion at quarter-end, a 23% reduction. However, as we implement more of these actions this month, we should further reduce these lines down to 4.2 billion by the end of April, a 42% reduction from our original exposure.

Beyond reducing these home equity lines, we are also working across a variety of fronts to mitigate risk, including aggressively working in partnership with our loan services to increase their effectiveness, particularly in collections; increasing our loss recovery efforts to maximize the value of each loan that goes to loss; and intensifying our efforts to put back loans to sellers where the original reps of a seller are not matched by the facts of the loans themselves. This effort resulted in a three-fold increase in put-backs versus the prior quarter.

As we move forward we’ll look opportunistically for additional solutions as the market allows. However, we are not waiting for markets. Instead we’ll continue to look at every opportunity to better manage each element of the risk mitigation strategy.

Donald H. Layton, Chairman and Chief Executive Officer

Excellent; thanks, Bob. Now in terms of generating capital, our plan has two main objectives: first, to ensure the bank has a strong capital base despite provisioning for loan losses. We made good progress in this in Q1, and we are maintaining our guidance that excess bank capital will be approaching $1 billion by year-end. Second, that the parent over time generates enough resources to reduce its high level of debt, as we began to do this first quarter.

We have the fortunate opportunity to generate the capital needed to meet our two objectives from relatively low cost or shareholder-friendly sources. Our first and most efficient source is the sale of certain noncore assets. This has the additional benefit of helping simplify the company to become relentlessly focused on our core high-margin business. A less complicated business is also less costly to management. Actions to sell noncore assets are already underway. In the first quarter we already generated proceeds of $69 million. In addition we have transactions in the works in which we have a high confidence of completion during 2008. We estimate that these will generate a minimum of $500 million of cash to the parent company, with the bulk expected to come in over the next three to five months. This $500 million is enough, according to our planning, to enable the parent to have adequate firepower to do everything it needs to do at our expected level of loan losses, while maintaining a reasonable cushion to meet higher than expected losses and/or pay down parent debt over time.

We’ll also be focused in our capital plan, especially later in this year and into 2009, on reducing parent debt. We have begun to do debt-for-equity swaps to reduce the debt burden and we have found this to be a shareholder-friendly way to do so. We completed $25 million of such transactions in the first quarter. These swaps generated a gain in the first year due to the extinguishment of debt.
at a discount. Afterwards they largely paid for themselves by eliminating interest expense at a yield which is now in the mid-teens. And of course they helped reduce overhang on our share price as leverage comes down. We also expect to reduce parent company debt later in the year through the automatic conversion to equity of $450 million in debt under an existing mandatory convertible note.

So between what we have already done and the mandatory conversion, we have $510 million of parent debt reduction already established. We are aiming for at least $700 million in total this year, and potentially could do significantly more.

Lastly we are of course taking note of the recent activity in the capital markets where troubled financial firms are gaining access to capital, and we are monitoring things carefully. We believe our current position is strong enough, largely because of its continued in-line performance of the Home Equity portfolio, that we can consider accessing such markets on an opportunistic basis with no undue pressure. Thus we may or may not do so in 2008. We’ll look to the shareholder friendliness of any transaction and the long-term health of the company as our guiding lights.

As announced in the press release we’ll be doing a round of expense cutting. This has two motivations. First, with the sale of nonsignificant noncore assets E*TRADE will be a simpler and smaller company and we must reduce overheads to match. Second, given all the negative economic and market news received during the first quarter, I think it appropriate to slim down to face a potential cyclical downturn. Thus we are announcing a plan to -- of cost reductions. The plan will reduce our run rate expense base mainly via a 10% reduction in compensation-related expenses, or approximately $50 million. The bulk of it will be implemented by the end of this quarter.

In closing, I think we have made solid progress on the turnaround plan this quarter. There are three overlapping phases of the plan. First was the November cash infusion and associated customer activities to stabilize our balance sheet and our customers. That’s over. The second is to deleverage the bank’s balance sheet, increase the bank’s excess capital, and bolster reserves to withstand loan losses, and we are well underway, with significant success to date. The third is to strengthen the parent company through sale of noncore assets and reduce debt while simplifying the business. And we have a few initial wins there as well.

That is all for the prepared remarks, so operator, we are ready for questions now, please.
QUESTION AND ANSWER SECTION

Operator: Certainly, sir. [Operator instructions] We’ll pause for just a moment to compile the Q&A roster. Our first question comes from Roger Freeman from Lehman Brothers. Please go ahead, sir.

<Q – Roger Freeman>: Hi, good evening. Can you give us any update on the new bank line that you are negotiating during the quarter? I didn’t see any announcement that that was ever completed.

<A – Donald Layton>: Yes, happy to do so. We did not do a bank line during the quarter. Given market conditions, this was not a time for us, or many others, to be accessing the markets. Given the financial actions we did take, we didn’t see any particular need for it, to press the markets. And so we put it off. Again, on an opportunistic basis we may go back to it when it is convenient. I’ll reiterate there is no need for it. It is something nice to have, which we’ll look for at the right time.

<Q – Roger Freeman>: Okay. So I guess because that has always been one of the, I guess one of the pieces you could draw on to infuse equity down into the bank to cover losses? So I’m just trying to think through the -- what your aggregate capacity is, should HELOC losses ultimately be significantly higher. And I guess the way to think about this is the $1 billion at least by year-end of excess capital -- that would be the main draw?

<A – Donald Layton>: Yes, that would be the main draw. I will also state that among the many choices, at this time given the high leverage, the debt at the parent, in terms of covering losses, I would not consider more debt to be our preferred way to do it. As I stated, the main way, besides the existing items, is to have the sale of noncore assets, which we have measured and found to be the lowest cost of capital available to us.


<Q – Richard Repetto>: Yeah, hi, good evening. I guess the question I have is on the one- to four-family. And I totally get you on the -- not so much -- it is an earnings impact. But can, you know, can you give us any comfort on how long you expect deterioration here and given the acceleration in the delinquencies and the nonaccruals?

<A – Donald Layton>: Well obviously we can only predict the future with a fair degree of uncertainty. And I’m glad you do get the notion of the relative sizing. As you can see, and I think it is on page 12 of the press release, the allowance for loan losses for one- to four-family is $41 million. I’m going to refer possibly today several times to the allowance for loan losses of various categories because that is fundamentally a forward-looking estimate of our best guess -- and I shouldn’t say guess -- the models analysis with a fair amount of structure around it of the losses over the next four quarters. That is through March 31, 2009. And that sizes it for us. And so that’s our best number to answer your question.

<Q – Richard Repetto>: So then you would – okay; this is a follow-up then, I guess -- then you’d expect the losses, if there were charge-offs of 14 in this quarter to taper off over the next year.

<A – Donald Layton>: Yes. No. To accelerate? I’m going to ask Matt Geary who is the expert on this to answer, please.

<A – Matt Geary>: So, we have got a $41 million reserve ending the first quarter, and we expect those losses and that allowance to continue to increase through 2009.

Operator: And our next question comes from William Tanona from Goldman Sachs. Please go ahead.
<Q – Bill Tanona>: Great. Good afternoon, guys. Hey, Don, you know, I actually saw you on CNBC a couple of weeks ago, and you had mentioned on there that you had an intention to raise some additional capital. Obviously that comes in many forms and then I just wanted to get your sense in terms of how you plan on raising that. Is it just the initiative that you outlined prior? And also, you know, how much do you plan or anticipate that you will need to raise?

<A – Donald Layton>: Yes. As per the press release and our comments earlier, the only two things we think are in our reasonable near future and need to do are, one, sell the noncore assets, and number two, do the debt-for-equity swaps to help reduce parent debt levels. We think that’s sufficient. There is an ability to do other things in additional noncore assets, but so far that’s what we are aiming at. Again, capital markets are up; we’ll view opportunistically, and with, again, our guiding lights being shareholder friendliness and the long-term health of the company.

<Q – Bill Tanona>: Okay. And then, I guess, on page 14 in the supplement, I know that the disclosures that you had provided were at the time of the origination. But just given everything that’s gone on in the last 12 months; I’m wondering kind of what those statistics would look like, particularly in the Home Equity? If you listen to JP Morgan or some of the larger banks, you know, they will tell you that as much as 10% of their portfolio has negative equity in it. And I’m just wondering whether or not you have gone through that exercise and looked through your portfolio and adjusted these statistics for some of the market depreciation that we have seen across the nation, just given the concentration of your portfolio in California and Florida and some of those high-risk areas, and what those statistics would look like.

<A – Donald Layton>: Yes, I’m going to ask Bob Burton to comment on that relative to Home Equity, which is where our main risk is. Short version is we have looked at it. Bob will give you the details.

<A – Robert Burton>: Certainly, William, we, as part of our loss forecasting process and also as part of our process to look at open lines, have received ABMs on the vast majority of the Home Equity portfolio. We use those ABMs to reset the values in our loss-forecasting process. And we use Case-Schiller futures to help us to forecast future deterioration in home prices as we go forward. You know the portfolio as a whole is relatively reflective of the market, and so the deterioration we have seen in home prices is really no different than you might see in the market as a whole.

Operator: Our next question comes from Howard Chen from Credit Suisse. Please go ahead.

<Q – Howard Chen>: Good afternoon, everyone. The improvement in your early delinquency buckets in the HELOC portfolio certainly counter to what we are seeing in pretty much every other major U.S. bank or thrift. So, Don and Rob, you both provided some sense of why you think the portfolio is faring better than peers and touched on some of the risk-mitigation strategies. But can you quantify any dollar amount of delinquent HELOC loans that were potentially restructured and moved back to performing status during the quarter, or if there were any ability to take capital markets transactions to sell some of these?

<A – Donald Layton>: Basically the answer to your question is that there was no material impact of anything like restructurings or turning delinquent home equity loans back to performing by dealing with the borrowed restructure or anything like that. Capital market actions right now, the -- I’m not sure there are any available in the market. And the pricing is probably not in favor of our shareholders versus the alternative of holding it and working it out. But again, we will be opportunistic if things are available and are economically attractive to us versus the alternatives. We always could do something.

<Q – Howard Chen>: Okay. Thanks, Don. And as a follow-up -- thanks for the detail as well on the excess capital levels and where those stand at quarter-end. I’m wondering though, in your mind,
how important is GAAP book value and GAAP tangible book value to you and your management team, regulators, and ratings agencies? I mean, I anticipate we'll continue to potentially see stability or erosion here as we see a full quarter's impact of the Citadel transaction and/or some of the impact of these debt-for-equity swaps.

<A – Donald Layton>: Well, the main -- in terms of leverage as you mentioned, the main vehicle we are looking at is the bank, which is where our customers deal with in terms of deposits. And that of course is very well capitalized at this time. The consolidated picture is important, but it is not a near-term driver of any events for us since the parent is not a funding vehicle borrowing, for example, in the open markets. And so our near-term and medium-term plans to reduce leverage there, via debt-to-equity swaps versus the asset sales, we think leaves us in good stead with the -- generally with the financial community since we expect those ratios to improve significantly. In addition, while a lot of people like looking at tangible net worth, that does make the assumption that intangibles and goodwill is sort of worthless. I know for this company, big hunks of their goodwill and intangibles comes from acquisitions, which are uniformly believed to have been extremely valuable and worthwhile, and so that goodwill has value.

Operator: Our next question comes from Prashant Bhatia from Citigroup. Please go ahead.

<Q – Prashant Bhatia>: Hi. On the Home Equity portfolio, is it fair to say if we took the 80% above loan to value that point of origination, you know, you probably, if you used current values, have about $6 billion that would be at or close to negative equity in the Home Equity portfolio?

<A – Donald Layton>: So in the revaluation of the properties, we saw on average about 11 to a 12% increase in the affected CLTV of those properties. And that affected pretty much all CLTV ranges. So those which were close to 90% also experienced that increase.

<Q – Prashant Bhatia>: Okay. So basically what you have shown us, just take it up ten percentage points and we are closer to what current loan to values are?

<A – Donald Layton>: That's a reasonable approximation, yes.

<Q – Prashant Bhatia>: Okay. And then on the debt-to-equity swaps and the 400 million mandatory convert, how much is that going to add to the share count based on what you have got planned this year?

<A – Donald Layton>: Rob, can you answer that?

<A – Robert Burton>: Sure. Hi Prashant, it's Rob. So the -- on the debt-for-equity swap it all depends on, you know, obviously the price of the stock and the price of the debt at the time it is entered into. But I think that the important thing is that, as Don mentioned, these are, you know, accretion-friendly transactions. These are shareholder-friendly transactions where we have an opportunity to issue new shares in exchange for debt that's trading at a discount. And we like the economics of it. We like the dilutive kind of nature of it. It is very modest. And from a capital markets standpoint, along with the core asset sales, we think it is very shareholder-friendly activity and way for us to reduce the debt levels at the parent company.

<A – Donald Layton>: I'll add that the 450 mandatory convertible adds about 25 million shares, Rob.


Operator: Our next question comes from Mike Carrier from UBS. Please go ahead, sir.
<Q – Michael Carrier>: Hi, guys. Just another question on the capital side. You know, when we look at the capital at the bank and the bank balance sheet in the tier 1 and then compare it to the corporate and in the corporate you have 2.7 billion in equity and if you exclude the goodwills and intangibles and realize there is some value there, but you got 0.2 billion in tangible equity. Yet at the bank you have about 3.1 billion and then last quarter you had tier 1, which you can include intangibles or goodwill of over three billion. So I’m just trying to get a sense of how much capital you have at the bank that can be used against losses versus at the corporate. Like how much of the goodwill can be parked in there and whether it is real or perception, you would have actually negative like tangible equity there.

<A – Donald Layton>: Okay. Let me start this, and maybe Rob will add in some details. I’m going to focus you to start with on the cash infusion back last November. Fundamentally, a lot of that cash infusion structure was capital brought into the parent as debt put into the – quote "double levered" is the phrase -- put into the bank as equity. The bank has been very well capitalized. Over the medium and long term, the parent should reduce its debt. Because the parent is not an active vehicle in the funding markets, its high leverage is not something that is primary in anyone’s view dealing with us. The bank, on the other hand, with the excess capital, deals with our clients primarily and they see a lot of protection.

So we have a fairly good setup that allows us to deal with our issues in the orderly course of getting debt down at the parent while preserving capital at the bank. That was a phrase used after the Citadel transaction and I’ll repeat it again. Citadel transaction solved enough problems to stabilize the company and allowed the rest of the issues in the balance sheet to be addressed in an orderly manner. And that’s what we are doing.

<A – Robert Simmons>: So just, Mike, just an additional point, just a reminder that the tier 1 capital at the bank that we talk about, the excess capital at the bank, does not include goodwill. The goodwill sits up at the holding company.

<Q – Michael Carrier>: Great. Okay. And just on a follow-up on the synergies, I think last quarter if you backed out the goodwill impairment charge, it was about 175 million that you were expecting on a kind of run rate basis. So should we be looking at it as like 225 when we are including the additional comp reduction?

<A – Donald Layton>: I’m sorry; I had trouble following you there. Could you repeat that?

<Q – Michael Carrier>: Yes, I think last quarter, when you guys initially announced some of the expense, you know, saves --

<A – Donald Layton>: Right.

<Q – Michael Carrier>: If you backed out the goodwill impairment, I think -- and then the reinvestment of the 85 million -- I think the run rate that you guys were looking at was like 175 million. And so if we also include the 50 million that you are announcing in additional head count reduction or compensation cost, should we be at like a 225 million run rate?

<A – Donald Layton>: The answer is, those are additive, although as a run rate it takes time for them to all work in. But the answer roughly is yes.

Operator: Our next question comes from Patrick O’Shaughnessy from Raymond James. Please go ahead, sir.

<Q – Patrick O’Shaughnessy>: Hi; good afternoon. Can you tell me about some of the policies you might have implemented or some of the strategies that you might have implemented to retain some of your key employees through the tumultuous past six months?
<A – Donald Layton>: Okay. Well, I -- the reality is, the company -- I come in new to the company. By and large I have found a very good culture and a strong attitude of the company's taken a -- not let's kind of put our shoulder to the wheel and get it back in shape again. There has not been any undue turnover rate or, of employees, in the numbers. We have done some modest dollar amounts for certain retention programs. And other than that, it's just we are trying to do good management and being out and among our personnel. And that's the entire story.

<Q – Patrick O'Shaughnessy>: Great. Thank you. And my follow-up question would be, your advertising obviously was pretty high level in the first quarter of the year, and I was curious if you could provide some insight as to what we might expect for the rest of the year.

<A – Donald Layton>: Advertising is seasonal. I'll look at Rob to give you the details, please.

<A – Robert Simmons>: We talked about this a little bit last quarter, Patrick, and we mentioned that Q1 was going to be an investment quarter. It is very typical for us to front load our marketing spend. We are really pleased with the returns that we are getting on that marketing spend. You see it translating into some of the customer metrics we went through earlier.

But as in the kind of typical seasonal pattern, number one, you know, you tend to decline. Q1 would tend to be the highest quarter of the year and drop off from then. And then you always retain the right to kind of audible from the line of scrimmage based on market conditions and current returns that you are seeing for your spend. So you do have a lot of control over those dollars, but you try to put it in a -- you try to time it in such a way that you get the best return on that marketing investment.

Operator: Our next question comes from Matt Snowling from Friedman Billings. Please go ahead, sir.

<Q – Matt Snowling>: Yeah; hi, guys. Can you give us a sense of how you position your balance sheet from an interest rate standpoint?

<A – Donald Layton>: I’m going to ask Mike Hluschak who runs the treasury function to answer that.

<A – Michael Hluschak>: We disclose our interest rate position in both the 10-K and the 10-Q. And I would expect our interest rate position at March 31st to look very similar to what we disclosed in the K at year-end.

<A – Robert Burton>: All right. Thanks.

Operator: Our next question comes from Brian Bedell from Merrill Lynch. Please go ahead, sir.

<Q – Brian Bedell>: Hi; good afternoon. Can you give an updated outlook to your projection of loan loss provisions for the full year? I think you said 4 to 600 million before. Is there -- with the -- you are running at a quarterly run rate faster than that. Is there an update to that?

<A – Donald Layton>: Yes; happy to do so. As we announced at the time when we gave that projection we said we would not automatically be updating each quarter. In addition, we are going to instead rely upon the accounting. The accounting, because of the way we do allowances, is an automatic four-quarter rolling prediction of loan losses. That number is $566 million for the last three quarters of this year and for the first quarter of next year. From that you can do your own estimates. If you need to adjust to come up with just the calendar year, you can do that.
You will notice the 566 is not equal to the first quarter times four. We have -- since we are dominated by home equity, we talked last time about how the pattern of home equity provisions and chargeoffs were going to peak by the middle of this year. That had some uncertainty around it. The first-quarter results seem to bolster the case that that is true. So you should expect something high in the -- basic provisions high in the first part of the year, lower in the second part of the year.

<Q – Brian Bedell>: Okay. And then just as a follow-up on the one- to four-family, it is correct that you have PMI [private mortgage insurance] insurance on LTVs over 80%, and if you could just -- and if you could say that that's correct. And for the LTVs under 80%, we have seen the delinquencies rise. Is the distribution of the loans under 80% LTV similar to the distribution above 80%? When I say distribution, I mean by documentation type, vintage, geographic...

<A – Donald Layton>: That's detailed enough, I'm going to ask Matt Geary to answer that.

<A – Matt Geary>: No, there is no significant difference in distribution above and below the 80% LTV cutoff. The portion above 80% LTV is relatively small, both from the absolute dollars that have mortgage insurance, which is about $400 million for the total portfolio of about 15 billion, and from a delinquency perspective it represents about $50 million. The other thing to note is that from a mortgage insurance perspective, we have seen a modest recovery but not significant to the overall loss expectation.

Operator: And our last question is a follow-up question from Rich Repetto. Please go ahead, sir.

<Q – Richard Repetto>: Yes, just one follow-up. On these -- I know this is a sensitive topic but on these asset sales that are going to generate about 500 million, could you talk about where they come from, is one part. And then do they impact revenue, or are the earnings generation capability of the company on the brokerage side going forward?

<A – Donald Layton>: As you know, it is important for us in actually selling units to get the best price for our shareholders. In addition we are dealing with customers and employees. So we actually are not going to disclose which particular units we plan to dispose of. You will hear about them when we have an announced sale. That -- the first one in the pipeline that is most advanced is not that far in the future so you will get a flavor for these coming up.

In terms of impact on earnings, the answer is yes. These do on average have a net profit across them. However, as I mentioned, this is the lowest cost of capital. The return or the net income we earn in these versus the sale prices we hope to get is generally -- I mean, it is a rough estimate -- in the range of 10%, which is by far the cheapest cost of capital we could access at this time. So we think it is an excellent way to solve our problems in terms of capital raising.

Operator: This concludes our Q&A session. I would like to turn the floor back over to Mr. Layton for any closing comments.

Donald H. Layton, Chairman and Chief Executive Officer

Okay. I want to thank everyone. I hope you get the notion here that the first quarter was a solid turnaround quarter. It was a turnaround quarter in terms of our clients coming in, stable, and leaving with beginnings of growth. And financially, while there were pluses and minuses that in terms of dollar terms and capital raising, the net was clearly a positive as we come through with our momentum in fixing and strengthening our balance. So on that, goodnight, everyone. And thank you.

Operator: Thank you everyone. This does conclude today's conference call. You may disconnect your lines at this time. And please have a wonderful day.