MANAGEMENT DISCUSSION SECTION

Operator: Welcome to E*TRADE Financial Corporation's Fourth Quarter and Year-End 2008 Business Update Call. At this time, all participants have been placed on a listen-only mode. Following the presentation, the floor will be opened for questions.

I've been asked to begin this call with the following Safe Harbor Statement: During this Conference Call, 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 periodically filed with the Securities and Exchange Commission could cause the companies actual results to differ materially from those indicated by its projections or forward-looking statements. This call will present information as of January 27, 2009. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statements made any duty to update any forward-looking statements made in this 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 companies Press Release which can be found on its website atetrade.com. This call is being recorded. Replays of this call will be available via phone, webcast and podcast beginning to the at approximately 8:00 PM Eastern Time.

The call is being webcast live at e*trade.com. No other recordings or copies of this call are authorized or may be relied upon. I'll now turn the call over to Donald Layton, Chairman and Chief Executive Officer of E*TRADE Financial Corporation, who is joined by Bruce Nolop, Chief Financial Officer, and other members of the E*TRADE management team. Mr. Layton, please go ahead.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you all for joining us this evening. Given the uncertainty I know exists in this very turbulent financial environment, I welcome this opportunity to update you on our results and the steps we are taking to insure the continued strength of the company.

Bruce will take you through our financial results for the quarter, but first, I want to speak to four topics: one, our overall performance in 2008 and then focusing specifically on the fourth quarter; our customer franchise, which continues to exceed expectations; our legacy loan portfolio; and our capital and liquidity position including the application for TARP financing. We will also comment at the end of the call on our outlook for next year and our plan to maintain the strength of our balance sheet.

In the full year 2008, we took aggressive steps to stabilize, return the retail franchise to growth. Our customer engagement went extremely well. We added 246,000 net new accounts and realized 5.4 billion in customer net asset inflows, and with a renewed focus on the investing customer, we delivered our best organic account growth in over five years, adding 144,000 brokerage accounts.

We invested 56 million in the retail franchise, leading to new offerings for individual investors, including E*TRADE Mobile Pro, a new online self-service center, intuitive retirement planning tools for customers and prospects, enhancements to our options and fixed income trading, expanded research, including monthly market commentary from our Wealth Management group and enhancements to our active trader platform.

In addition, we increased our marketing expenditure during the year as we made the decision to repair the brand and take advantage of opportunities in the market. We also prepared aggressively for what we understood was a tough market environment. We were early in raising capital, in building liquidity and in reducing risk. Specifically, we strengthened the balance sheet and reduced risk by decreasing undrawn home equity line to $2.5 billion by year-end. That's down 4.7 billion from more than 7.2 billion last year. That's about a two-third decrease, providing yet another example of our willingness to move early and aggressively to maintain the integrity of our balance sheet. And by shrinking total loans by more than five billion from a year ago to 26 billion as of this past year's end largely via loan payments and repayments.

The company raised 754 million in net cash proceeds through non-core asset sales, where again we were early and thereby received good prices. We exited non-performing businesses including our consumer mortgage lending and the institutional brokerage business. The company reduced fourth quarter run-rate operating expenditures by an annualized $75 million compared with last year, and we increased the allowance for loan losses to 1.1 billion from 508 million a year ago. I think you will agree that these significant accomplishments served our two stated goals: we returned the retail franchise to growth and strengthened our balance sheet, even during an unprecedented time for the markets and the economy.

Now let me turn to fourth quarter results, focusing first on the retail franchise. As referenced earlier, our retail franchise has been performing very well. We continued to benefit from the loyalty of our customers. We added 290,000 gross new accounts for a net increase of 97,000 accounts during this one-quarter, bringing total retail accounts to a record 4.5 million.

More importantly, the net growth in our brokerage accounts, which provide the greatest source of revenue and profit to us, set a record at 77,000 accounts. This was the highest level of organic growth achieved in five years. We earned customer net asset inflows of 3.5 billion in the quarter, which is also a record, the highest since we started tracking this metric in 2006, and which compares favorably with the net inflow of new assets in the third quarter of 800 million.

In short, our value proposition is resonating in the current environment and we continue to compete effectively, especially for bulge bracket customers, with our robust technology platform, our ease-of-use and our broad array of investment alternatives all in a low cost environment. Given their experience over the past year, investors, including Main Street investors often ill-served by legacy institutions, are increasingly receptive to this integrated and consumer friendly approach to managing their investments.

Our daily avenue (sic) [average] revenue trades, or DARTs, reflecting the highly volatile markets, were up 18% from the prior quarter to a record 216,000 DARTs in the fourth quarter. While we certainly aren't counting on continuation of this level of activity, it's a great sign of the strength of our retail franchise. When the opportunity was there, we got our fair share.

Our strategy is to focus even more upon our core brokerage customers with a broader array of products and improved customer sales and service, participating in market share growth as self-directed and online investing are found to be more attractive by the public. This represents the future of the company and upside potential once our credit issues are behind us. Please note that we are modifying our disclosure relative to account metrics to align with this strategy.

Let me now turn to credit. When we last talked to you, we thought that we were at or close to the inflection point where delinquencies and provisions would be declining from their peak levels. This belief was based not just upon our then expected level of charge-offs, but also upon an additional historically conservative scenario. However, as you all know by now, in the fourth quarter, the economy went into a decline that is widely described as unprecedented, and as such exceeded the historically conservative scenario.

Our allowance, paralleling approximately the resulting increase in delinquencies, was up by 24%. Our chargeoffs were up by 9.7%, and our loan loss provision was fundamentally flat. These compare favorably with the results being posted throughout the banking system so far. We believe this reflects two contradictory forces: our being further advanced in the credit cycle than the industry, and add to that number two, the new economic downturn.

Let me go through the key reasons we believe E*TRADE is more advanced through the cycle. First, 2007 vintage home equity loans are a relatively small percentage of our portfolio, at just about 12%. Loans from 2007 are not just less aged. They are broadly considered to be of worse quality, as home prices were at their peak. Second, we have a negligible amount of subprime and no option ARM or negative amortization loans.

Third, we were aggressive and early in reducing HELOC open lines as already stated. Again, undrawn home equity lines have been reduced from 7.2 billion to 2.5 billion as of the year-end. The remaining home equity lines are of extremely high quality with a combined current, not original but current, combined loan to value ratio of just 68% as an example.

Fourth, we are not substantively exposed to the major other asset classes, which have begun to show substantial losses, such as credit card or commercial loans or real estate, commercial real estate loans. And fifth, we stopped purchasing mortgage loans in mid 2007, meaning originations were from or even earlier in 2007 and put our loan portfolio into 100% liquidating mode. In 2008, we thus had net pay downs of $4 billion.

This brings me to the final area that I want to discuss, our capital position. You all know we built up a substantial capital cushion during 2008, and it is serving us very well at this time. Let me first recap our sources of bank regulatory capital in 2008. I want to note here that while we carefully monitor both Tier 1 and risk-based capital levels, for the purposes of today's discussion, we will focus as we have in the past on risk-based capital.

In 2008, we increased our risk-based capital at the bank from 400 million to about 700 million at year-end. Let me repeat that. We increased it from 400 million to 700 million. During 2008, the bank generated pre-credit loss earnings of $740 million, and we also released another 765 million of risk-based capital through the balance sheet deleveraging. Thus, we produced 1.5 billion of bank capital organically and downstreamed from the parent an additional $650 million of capital, primarily created by the timely sale of our non-core assets. Add it up and this amounted to $2.15 billion of extra capital, which was then offset mostly, but not totally, by 1.85 billion in credit cost to create the increase I mentioned of 300 million in the excess risk-based capital. Please remember that the 1.85 billion in credit cost not only is loan loss provision but also includes impairments and losses on agency preferred stock as we have previously disclosed to you.

Given this unprecedented economic environment, we are examining all options to ensure that E*TRADE will remain in a strong capital position. We continue to pursue the U.S. Treasury TARP capital purchase program and are prudently also considering additional other transactions.

With regard to our application to the U.S. Treasury TARP capital purchase program, our application remains under active consideration. Unfortunately, this process has not moved as quickly as we originally expected. Given the change over in administrations, at this time we cannot predict the timing of a determination on the application.

That concludes my introductory remarks, and I'll now turn the floor over to Bruce who will discuss our financial results for the quarter.

Bruce P. Nolop, Chief Financial Officer

During the quarter, we generated a net loss of 276 million or $0.50 per share on net revenue of 486 million. Of course, the big reason for the loss this quarter was the loan loss provision of 513 million.

Commissions, fees, principal transactions and other revenue for the fourth quarter were 224 million, which compared with 213 million in the third quarter. As Don noted, our revenue benefited from the strong performance in DARTs, although this was partially offset by a decline in the average commission per trade due to mix.

Our fourth quarter revenue also included net interest income of 274 million, which was down from 325 million in the third quarter. This partially reflected the lower level of interest rates and the abnormal spreads among federal funds, LIBOR, and customer deposit rates. Because the interest rates on our home equity lines are linked to the federal funds rate, they are producing lower revenue upon reset.

And on the liability side of our balance sheet, we chose to reduce customer interest rates at a slower pace than the decline in market interest rates. And our wholesale borrowings at the bank are largely based on LIBOR.

The lower net interest income also reflected a lower level of assets, including a decline of 3.7 billion in margin receivables and legacy portfolio loans. The total of margin receivables at the end of the year was 2.8 billion, which was down from 5.6 billion at the end of the third quarter. For these reasons, we also saw a decline in our pre-credit loss bank earnings this quarter to 165 million, which compared with 189 million in the third quarter.

Customer cash was relatively steady for the quarter. Cash and deposits at the end of the year were 32.3 billion, which was down about 1.1 billion from the end of the third quarter. The cash in brokerage accounts was 16.2 billion, which also was down slightly from the third quarter, which reflected the fact that our customers were net buyers of approximately 1.9 billion in securities.

Our operating expenses increased by 26 million in the quarter as compared with last quarter. While the underlying trends were favorable, some specific items caused the quarter-over-quarter increase, including a $15 million increase in advertising spend, which related to a planned seasonal pattern, and we had an insurance related recovery, which lowered expenses in the third quarter by approximately 4 million. We also had higher costs in servicing the loan portfolio, including higher charges for real estate owned and higher risk mitigation and legal costs.

So let's turn to the biggest expense this quarter which was our loan loss provision. We increased our allowance by 206 million this quarter, which brought our total allowance at the end of the year to $1.1 billion. This allowance is equal to 4.23% of our gross loans receivable and compares with a ratio of 1.66% as of the end of 2007. Net charge-offs were 306 million this quarter, which compares with 279 million last quarter.

Total delinquencies for the quarter were up 30% from last quarter. The 30 to 179 day delinquencies, which we categorize as at risk delinquencies, were up 31%, and as a reminder the reason that we exclude the delinquencies that are over 180 days old is because these loans have already been written down to their net recovery value, and thus they should not be a significant additional charge against our loan loss allowance.

I now will summarize the movement of the at risk delinquencies for the quarter. At risk delinquencies for first lien mortgages were up 41%, and this compares with a 48% increase in our loan loss allowance for this category. For the home equity portfolio, the at risk delinquencies were up 22%, and our loan loss allowance increased by 21%. And for the consumer portfolio, the at risk delinquencies were up 5%, and the loan loss allowance was up by 7%.

Across the portfolio, we saw an improvement in our allowance metrics. The allowance for loan losses as a percentage of gross loans receivable rose to 4.23% from 3.31% last quarter. The allowance for loan losses as a percentage of non-performing loans, the coverage ratio, rose to 115%.

I also want to highlight some changes in our capital structure this quarter. First, we converted 450 million of debt to equity at the end of November, according to the terms of a mandatory convertible. The effective conversion price was $18 a share, which meant that we increased our shares outstanding by 25 million at year-end. Second, we exercised our option to pay the interest on the springing lien notes by issuing new 12.5% notes due 2017, and this saved us about 121 million in cash. Third, we contributed 250 million as preferred equity in the bank near the end of the fourth quarter.

We enter 2009 with a strong capital and liquidity position. At the end of the fourth quarter, the bank had Tier 1 and risk-based capital ratios of 6.3% and 13.0%, respectively. This resulted in 578 million in excess Tier 1 capital over the well-capitalized threshold and 716 million in excess risk-based capital. Thus, we ended the year in a stronger capital position than we started the year.

In terms of liquidity, the parent company had 435 million of corporate cash at year-end. The bank had 3.2 billion of cash, and with recent changes to FDIC guarantees, 95% of our bank deposits are insured by the FDIC. And in addition, we had unused Federal Home Loan Bank credit line of 10 billion.

Before we open the line to questions, Don and I will take you through our strategic approach for 2009, and let me begin with our operating outlook. While we certainly don't have a crystal ball, we think it is prudent to adopt an austerity budget for our retail business. Thus, if it were a surprise going forward in terms of volumes or revenues, it will possibly be more on the upside and not on the downside.

Inline with this thinking, we are budgeting for a level of customer activity as measured by DARTs that is down by about 15 to 20% on average this year. We also are assuming that margin receivables will remain at their very depressed current levels, which represent a significant decline from their average for 2008.

We also are assuming a decline in net interest income as a result of the lower loan balances due to pre-payments during the year; however, we expect to see an improvement in our interest spread from the fourth quarter level as the difference between LIBOR and the federal funds rate is narrowing to more normalized levels, and we are reducing the yield paid on bank deposits.

In response to this outlook and anticipation of a difficult economy, we are targeting further reductions in our cost base, including a selective decrease in positions. Our goal is to right size the business cost structure to fit our new business model, including our strategic focus on the retail franchise. These productivity actions will insure that we continue to invest in strengthening our core retail business. We are committed to maintaining our strong momentum and continuing our efforts to enhance the customer experience.

We also intend to be cautious in discretionary expenditures this year. While we will maintain our outreach to new customers, including investments in our investing platform and our customer experience upgrades, we will reduce our advertising spend. This advertising spend reduction is in line with projected market conditions and is aided by the broad based decline in advertising rates.

We know where we want to go strategically, which is to build upon our strong base in retail training and investing and we are taking every precaution to insure that we are focusing our cash and human resources so as to preserve and optimize our upside potential as we build on our strong customer base.

And with that, let me turn the call back to Don who will take us through our credit outlook and our capital plan.

Donald H. Layton, Chairman and Chief Executive Office

Thank you, Bruce. Obviously, we understand we are in a highly uncertain credit environment. We have made estimates of forward-looking losses to determine our allowance as reported today, using actual data and external sources as much as possible.

I believe the big issue for E*TRADE with its particular mix of loans and the vintage of those loans is whether the latest increase in delinquencies has an observable end in sight or whether our forecast assumes a turn down in delinquencies based solely upon models. The biggest single indicator of our forward-looking estimate of losses is the entry level, that is 30 to 59 days past due delinquencies bucket.

For E*TRADE, of course, home equity is where the vast majority of our loss potential resides. There was a material spike in this metric in November of this past year, which was absolutely consistent with the other information we've been seeing about an acceleration of the economic downturn, but this was not repeated in December and so far in January for which we have early reports for about 70% of the portfolio.

This gives us some perspective that delinquencies may not be on a steady climb. In other words, a mixed trend in delinquencies is what we are seeing now. As already stated in response to an increase in delinquencies due to the economic decline in the fourth quarter, we increased our reserve by 206 million to 1.1 billion. This allowance number of 1.1 billion then is of course our estimate of actual charge-offs, which will occur in the four quarters of 2009.

We previously have been giving you updates on the estimate of charge-offs for the years 2008 to 10 for the home equity portfolio; however between the actual figures for 2008 now being reported fully and the allowance for home equity loans also being reported today, which represents the 2009 estimate, we have already covered two-thirds of the quarters of this period. We will therefore be discontinuing the three year estimate in favor of focusing solely on the fourth quarter looking allowance. To provide a transition for this quarter, we will disclose that our 2008 to 2010 estimate of home equity charge-offs would be increasing by 15 to 20%.

As we are all aware, any projections related to future credit losses are just that, projections, and given today's tremendous uncertainty in the environment, their accuracy is not to be overestimated. We don't.

Let me now turn to this year's estimates for the capital to deal with these expected losses or even higher losses and why we believe we can stand behind our commitment to maintain a strong balance sheet just as we were able to do in 2008.

In 2009, we started the year with just over 700 million of excess risk-based capital as I've already described. We project that we will produce an additional approximate 1 billion, possibly more, organically at E*TRADE Bank through pre-credit cost earnings and the regulatory capital released by further shrinkage of our balance sheet. Thus, the first approximately $1 billion of credit provision could be absorbed without employing our initial 2009 capital cushions of this roughly 700 million. This of course ignores quarterly ups and downs and talks about the full year. The second line of defense is our existing capital cushion, which the bank started the year, the 700 million. This can obviously absorb substantial additional losses.

Our third line of defense is the ability to downstream capital to E*TRADE Bank from the parent out of available cash. Such cash injections can therefore absorb some more provision. Please note we have the flexibility to pay in kind the next three semi-annual interest payment, on the large parent notes due 2017, which can save up to $410 million in cash at the parent over this timeframe that would otherwise be paid out as interest.

The fourth line is to take additional actions to increase regulatory capital at the bank or cash at the parent. We were very successful in 2008 in generating capital for the company, and we will continue to develop a range of specific transactions to strengthen the capital position of the company. We will announce those transactions as they occur. We will additionally be looking to improve our parent capital structure with possible further deleveraging transactions, such as the debt for equity exchanges we did last year to a degree.

Before we open the call to questions, please note that we've said everything we can say regarding our application to the U.S. Treasury for the TARP capital purchase program. We have been advised to maintain a great degree of confidentiality in dealing with the government and thank you in advance for respecting this requirement of us.

With that, operator, you may open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now open the call to questions. [Operator Instructions] Our first question comes from the line of Rich Repetto with Sandler O'Neill.

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

<A – Donald Layton>: Hi, Rich, how are you?

<Q – Richard Repetto>: Good. I just first wanted to clarify the cumulative loss, the updated cumulative, I know you're not going to continue to do it, but you did for tonight. But you're saying 20% above the 1.8 just for home equity and that would be '08 to 2010 is that...

<A – Bruce Nolop>: I said 15 to 20%, and yes, it's charge-offs, not provision, charge-offs for home equity only 2008, 9, and 10.

<Q – Richard Repetto>: Okay, next question, Don, is – just looking at the accounts and how they came in during the quarter. And it looks like on a net basis, a very strong October and then it declined both in November and December. So I'm looking at 7,500 net accounts in December. And just trying to see, was it something going on in regards to account adds or attrition that caused that to swing such dramatically, more than 60,000 net new accounts in October and again 7,500 in December?

<A – Donald Layton>: Yeah. The story is October was a outrageously great month for us. You will recall the volatility in the markets was extreme. That was the month I believe with – that was where in the middle of the month, the Dow declined 9,000 points in one day. Volatility has been very friendly to us, both directly in terms of DART volume and interestingly enough and one of the reasons we made our comments, that kind of volatility seems to be leading various – the investing public to look towards us and I think other online brokers and leave their certain legacy firms. So we saw a tremendous increase there. It's not that November/December were poor months. They were, in fact, quite fine months historically. It's rather that October was so fabulous. I've made a comment in my remarks that we don't expect that kind of level to continue, and we're cautious about next year, but we're feeling good about our customer engagement as we start the year.

<Q – Richard Repetto>: Okay, and very last question is, you mentioned some – you're looking at a range of transactions, and when you say to increase cash like you did in 2008, so I'm lead to believe that that's more asset sales rather – well, that's sort I'm led to believe; is that correct?

<A – Donald Layton>: What we'll say, Bruce and I will say, it's our job to come up with as wide a range of alternatives that we could pursue as possible, each of which will have their timing issues and how attractive they are in different circumstances. We will consider in there – we are looking at some more non-core asset sales, although in the mix of things those were the dominant source of our cash in 2008. Going forward it would be more modest part of the plan.

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

Operator: Your next question comes from the line of Roger Freeman with Barclays Capital.

<Q – Roger Freeman>: Hi, good evening.

<A>: Hi.

<Q – Roger Freeman>: I understand you can't talk about TARP, but let me ask about one other source of aid here with respect to this bad bank or big bad bank whatever you want to call it. CNBC is running a story here a half hour ago saying it's going to get announced next week. I mean what's your understanding of that as a potential source to be able to unload part of the loan portfolio? And do you think it's even feasible, given additional impairments that could be taken, to actually participate in that?

<A – Donald Layton>: Yeah. We know roughly what a careful reader of the newspapers would know, but we do have some advisors with some additional information, not a lot, related to Washington. The new administration seems to have a three-part plan about the financial system; one, which will help us maybe indirectly is about related to foreclosure prevention or forbearance by consumers. The second is to sort of reformulate or put different provisions of some fashion and reenergize the TARP capital purchase program for which we have already applied.

And the third is what's called to put together an aggregator bank or aggregator banks, which will be purchasing troubled assets as per the original name of the program. We have not heard much in the way of details, but given the nature of our balance sheet, it is at least of intellectual interest to us to examine it closely, and there is a reasonable odds, which we couldn't quantify, that it might be something we would seriously look at, since it would aiming at doing what they say they want the system to do – clear bad assets off the balance sheet and then balance sheets don't need to shrink to improve capital ratios, which of course is what we're doing absent some program like that. So the answer is, it may be another arrow in the quiver we get to look at to improve the balance sheet of the company, and I'd be very happy if they announced details sooner rather than later so we could get on with it.

<Q – Roger Freeman>: Right. Okay. And my second question would just, some clarifying thoughts around forward delinquency expectations. Can you tell me what you're assuming at this point with respect to that 15 to 20% increase about where unemployment rate goes to and what home price appreciation or depreciation does between now and then?

And then secondly, can you give us some thoughts about cram down legislation, what you think that does, will do to your portfolio with respect to bankruptcies potentially spiking?

And lastly, what are you seeing around refinancing and early paydown on loans? Obviously, the refis have spiked, but few people seem to be actually getting loans.

<A – Donald Layton>: Yeah. Okay. I didn't write these down, let's see if I can remember. In reverse order, we – because of low refinancing rates, people who can refinance we believe are doing so, and so, we think the loan paydowns where we saw high dollar of value in 2008 will continue to be relatively high in 2009. It's obviously harder for someone to qualify, but they are also getting houses at cheaper prices with which to try to qualify. So that's that one. In terms of – what was the middle question?

<Q – Roger Freeman>: Cram down.

<A>: Is that the bankruptcy?

<A>: Yeah , it's the bankruptcy**<A – Donald Layton>:** That is just, it's not clear if it's good or bad to us. The advice I've had from outside is that any kind of foreclosure activity that, if you will, is a person by person or borrower by borrower takes a long time to process and a long time to do, and through bankruptcy courts, you could be talking years in the making. So it's not clear that it would have an impact in a timeframe that's all that important to us, where we view our critical timeframe sort of being right now in this coming year. I regard that more as something that could be long run value for the system but not particularly aimed at us.

For the first one, the 2008-2010, we've gone through this several times in the past. We have an outside purchase model as much as possible. We use outside verifiable sources of data to predict future losses, rather than sort of just highly judgmental on in our part. For home prices, we use the Case-Schiller futures, which is down to 14% I believe year-end to year-end, is that it, about it?

<A>: Yes.

<A – Donald Layton>: Next 12 months, unemployment is not a direct input into the system because we don't have any credible way to compare unemployment to home loan delinquencies. Instead, we look at delinquency trends and extrapolate them based upon current behavior and some historical precedents after a period of time, and that's what we do. So we're assuming the numbers take us where the numbers take us, and you have where the result is. I do caution we are in such unprecedented waters about the economy that any prediction has a fair degree of uncertainty, more than normal uncertainty.

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

<Q – Howard Chen>: Good afternoon. Thanks for taking my question.

<A – Donald Layton>: Sure, happy to do so.

<Q – Howard Chen>: Apologies if I missed this in the prepared remarks, Don, but are you still forecasting the company returns to quarterly profitability in '09? And if so, what's the framework to get there? It doesn't seem like it's revenue growth from current levels, so is it production and operating expenses or improved credit quality that could change?

<A – Donald Layton>: Yeah. We did say we are happy to tell you that we are not going to forecast and give guidance about quarterly profitability in 2009. It is just too uncertain an environment. The keys to profitability returning in order of magnitude are clearly a decline in loan loss provisions. I do want to distinguish that from charge-offs, provisions of course are more forward-looking therefore rise early in the cycle and decline more rapidly as you pass your peak of charge-offs. Keeping the underlying retail business healthy, which we think we've had a pretty good track record of doing and the long run, reducing the leverage the debt expense at the parent. So the big lever is going to be provisions, which is just too uncertain to predict with that accuracy in this kind of environment.

<Q – Howard Chen>: Okay, thanks. And then can you discuss the movements that drove the increase in the AOCI account and some of the moving parts in the investment securities portfolio during the quarter?

<A – Donald Layton>: I'm actually going to turn that over to – I'm going to introduce Mike Pizzi, who is Bank Treasurer, who runs that. The AOCI went up a little bit as you saw, but he will give you some more detail.

<A>: The largest move in the AOCI account was related to marks on our non-agency CMO portfolio. We have roughly have approximately one billion of non-agency CMOs. As of 9/30, they were marked at a mark-to-market position of 212 million, that moved out approximately 105 million on the quarter.

<Q – Howard Chen>: Okay. Thanks. And then Don, understanding you're limited in what you can say, but the Treasury, the main objective for the TARP appears to help recapitalize the financial sector to help get credit and lending moving again. But it feels, E*TRADE appears to remain in a balance sheet reduction mode. You're trying to work down these legacy portfolios, so do you agree with that statement? Or do you think that puts you at a disadvantage versus other maybe more direct lenders?

<A – Donald Layton>: No. Well, we I think are similar to other lenders in a lot of ways; that is, as long as capital is considered highly constrained both in our own judgment and almost at the behest of our regulators, we'll shrink the balance sheet heavily in order to improve capital ratios, by releasing capital tied up with existing assets. As part of our application, since it was well advertised early on that institutions receiving the money should be providers of credit, we told them we could stop shrinking our balance sheet and would go into a stable mode, which means we would be committing to do home finance in one form or another, equal to the pay downs we get. If this had been true last year, the pay downs were about $4 billion, which gives them pretty good leverage on the amount we applied for.

If we did that, we would be very cautious in the quality of what we would invest in and home mortgages give you a wide range of ways to finance things up to and including Fannie and Freddie guaranteed paper, so we think on credit risk we could be extremely conservative and yet meet the need to finance mortgages as part of a TARP application. We naturally focus on mortgages because our bank is a thrift.

Operator: Your next question is from the line of Mike Carrier with UBS.

<Q – Michael Carrier>: Thanks, guys. You gave some of the ratios and the excess risk-based capital at the bank, so I was just wondering if you could provide an update on what the equity and the common equity amount is.

And then just in terms of the injection of the preferred, the 250 million, just wondering if you had the excess why in the fourth quarter and then is that just more down streaming from the parent company, and I thought you were close to your maximum that you could do, but you mentioned that you might do some more so just how much more flexibility do you have there?

<A – Donald Layton>: I'm sorry could you repeat the last part? You said we were close to the max of what?

<Q – Michael Carrier>: Just I remember I think it was last quarter, in terms of further downstreaming, it seemed like there was, you already had done a lot of that, and there wasn't much more wiggle room in terms of like the double leverage at the parent company.

<A – Bruce Nolop>: In terms of consolidated equity to asset ratio if that's what you're after, at the end of December 2007, it was 4.98%. It increased during the year to 5.34%. That was a combination of the losses offset by new equity; the biggest item was new equity. It was the mandatory convertible converting, and of course, the denominator shrank as the balance sheet shrank substantially, so technically we've improved that.

In terms of what did we do from the parent – we were very successful this year in putting cash into the parent from our asset sales, the place to store our cushion, it is more desirable to store the bulk of the cushion at the bank, which is our primary customer facing vehicle. The parent is back up. We're reporting that the parent has $435 million in cash. It does not need anywhere near that amount in the next 12 months for itself or anything like that, so technically there is more ability to put cash down there and we may do so, but as I said before, we're developing options to increase capital at the bank or cash at the parent, so it's not a static game anyhow.

<Q – Michael Carrier>: Okay. And then just the second question is just on the spread. If you look at the average balance sheet, just given the movement in terms of the rates and the balances, it seems like the majority of this quarter was related to the decrease in the margin loan. So you mentioned that given that LIBOR Treasury, the spread is becoming more normal, the net interest spread could go back up to a more normal level. Just trying to based on where like how the balance sheet is positioned and if those spreads return to more normal levels and margin balances stay here, do you have an estimate of where you expect the net interest spread to balance out?

<A – Donald Layton>: There's a few things going on in net interest. I'll generally tell you, but we are not going to give you a specific guidance. You're correct, margin loans declining reduces NII. We pointed out that some of the spreads, especially Fed funds dropping, which defects our asset side versus LIBOR and some of the liability side, but actually, the biggest thing that's going to go on is that we reduce the rate, we're reducing the rate on our customer deposits, which is more than $10 billion worth these days, in particular our savings accounts, more slowly than the large and rapid market declines occur, which occurred in the fourth quarter.

We have begun to reduce those rates, but we felt on a customer side, it was not a good customer – long term customer development action to dramatically reduce them, so we're doing it more gradually and in this kind of environment we also felt running a bank it was better to be a little extra in deposits rather than less. The reduction in that rate will provide a substantial boost to net interest margin. When you get all done, we'll have a reasonable level and I don't know if we're going to give more guidance than that. I don't think we're giving more guidance than that...

<A – Bruce Nolop>: Yeah, the only thing I would add is, is the margin had a big impact in terms of net interest income, but it was not the majority of the decline in the spread. So you need to distinguish between the decline in the asset balance and the spread. So that's what gives us some comfort, even though we're projecting that margin balances do not recover from where they are now, that we still will be able to get an improvement.

<A – Donald Layton>: The guidance we are willing to give you is on the bank pre-credit earnings, we have previously indicated – showed the historic average range of this earnings and said the range seems to be in the 180 to $200 million per quarter. The vast majority of the net interest margin variance you're talking about is located in the bank, and we're basically saying, given what's going on, we believe during 2009, it will average in the lower end of that range.

Operator: [Operator Instructions] Your next question is from the line of Brian Bedell with Banc of America.

<Q – Brian Bedell>: Hi, good afternoon, guys.

<A – Donald Layton>: Hi.

<Q – Brian Bedell>: Just a couple questions. One on the – can you, I guess, be a little bit more specific on some of the expense save plans as we head into 2009? What areas do you have flexibility to reduce head count and advertising as well?

<A – Donald Layton>: I'm going to ask Bruce to answer that.

<A – Bruce Nolop>: Sure. First of all, in terms of the budget, we've already implemented a number of productivity savings this year. And so we will get the benefit next year of just the carryover. And then in addition, we're launching additional savings, and most of those will come from not filling open positions, eliminating contractor that we've positioned the business fairly well to have quite a bit of variable expense. And then finally, there will be selective position-by-position reviews and not a broad layoff but simply a person-by-person, department-by-department, which will help with the net.

And then the other thing we wanted to mention is that we are going to shift the emphasis in how we invest our dollars. So part of why we're doing the productivity is to make sure that we can continue to support the retail franchise. And we've decided next – 2009 year that we will focus more on product development. So we will be spending considerably more in 2009 than we did in 2008 to enhance the customer experience and to improve the technology platform. And in contrast, we think this is the kind of environment where we can spend less on advertising and particularly as we mentioned, with the rates being down and that's the right trade-off. And then we will be looking at other discretionary expenditures, all of the usuals from travel and entertainment to vendor savings and so forth. And just with that kind of mentality that we will do going forward.

And just the bottom line is also, we are budgeting the expectation of lower level of activity. That will naturally produce some savings in clearing, for example, but we also are going to be looking wherever we can on variable costs to make them commensurate with the lower level of activity.

<Q – Brian Bedell>: Do you think you can operate on a quarterly level below what you did in the third quarter of around 295 million in expenses?

<A – Bruce Nolop>: We should – let me put it this way. We think that we can run the business next year from an operating margin standpoint and recover most of the revenues declined and then not have a significant, there will be a margin decline, but it will not be significant, and we will narrow the gap between the revenue decline and what the earnings will be, and that's the best way I can present it.

Operator: Your next question comes from the line of Joseph Edelstein with BMO Capital Markets.

<Q – Joseph Edelstein>: Hi, guys. Thanks for taking my call.

<A – Donald Layton>: Sure.

<Q – Joseph Edelstein>: Just want to come back to Howard's question on the securities portfolio, because we noticed the increase in the MBS specifically. Was that just a reinvestment of the margin balances that were paid down? And also, should we expect that those balances to come down noticeably given the modest margins between those yields and what you're actually paying on the repos or FHLB?

<A – Donald Layton>: Yeah. In terms of balance sheet management, we had a big decline in obviously, the margin receivables in the fourth quarter, very unexpected and of course we have the longer run trend of the loan portfolio shrinking substantially last year. So during the fourth quarter, we did do some partial reinvesting of those pay downs into mortgage backed investments, while waiting to hear about our TARP application. At this time, we are going back into what we told you which is a run-off mode, and so you'll start to see shrinkage again and the MBS would not be particularly growing.

<Q – Joseph Edelstein>: Okay, thank you. And just a second question. Could you discuss the marketing strategy with the upcoming Super Bowl? How do you look at it from a cost versus payback on the investment? We know last year you received a big lift in terms of open and funded accounts, just in the week after the game, but how many accounts do you think are actually in play this year and since you've already talked about cutting some of the advertising costs just for the general year?

<A – Donald Layton>: I'm going to ask Nick Utton, who is our Chief Marketing Officer and Chief Baby Herder in this case to comment.

<A – Nicholas Utton>: Okay. It's Nick. I'm going to give you a brief answer. We spent a lot of time thinking of this regarding the strategic opportunity of advertising on the largest media reached opportunity in America; last year 107 million people watched the Super Bowl. So as we made a decision to decide should we go ahead with it, we looked at the numbers, we looked at the opportunity for further account growth, which we did get last year. We announced in the first week after the Super Bowl last year we got a 32% increase in the number of accounts, et cetera, et cetera. So we've spent a lot of time on it. We've researched the various options we've got extensively. We've have looked at the tonality, and we feel good and confident that this will be a good return on investment. But it's more than just a 30 second ad, and I want to say that sort of emphatically as you look at it. Please judge us on the total marketing mix and marketing plan as opposed to a 30 second spot, because if it's looked in isolation, you might not fully comprehend the ROI piece.

<A – Donald Layton>: I will mention on the marketing side that if you go to YouTube and our page on YouTube, you will find a short series of outtakes of commercials that are not being run with the baby, which have been getting successful reception. We put it out just last Friday night, and so we're starting to do some pre-marketing buzz on the viral – in a viral manner.

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 remarks.

Donald H. Layton, Chairman and Chief Executive Officer

I want to repeat our basic themes that we've had through the day. The operating business, with our customers, despite all of the challenges is producing good customer engagement. We're competing successfully with the other major online firms, performing broadly in line with them. While there's ups and downs due to net interest spreads and other things, we feel very confident about this business. We are budgeting on an austerity basis to make sure our expenses are very much in line. If we're wrong, we hope to be wrong that where it will be better than we think on the operating side.

For credit, we are dealing with an environment that is just very hard to determine and so the focus is more on providing capital and building alternatives to increase capital in the company as needed to deal with a tough credit environment and examine very carefully the details of the trends in our credit delinquencies. Let me come back.

Because our portfolio was fairly aged at this point and because we stopped lending quite a while ago, and because we were very aggressive in reducing open home equity lines right now for a short period of time we are having very mixed delinquency trends. The big increase is being seen by banks overall is not fully repeating itself here. We will be watching this, and we'll disclose more details when it's appropriate, and we will follow the numbers in terms of our allowances. Right now we think they're right and we'll follow where they go but we're – we have in a very dark economy, we see a few glimmers of light for us. And on that note, I'll say thank you.

Operator: We thank you for your participation in today's E*TRADE Financial Corporation Fourth Quarter and Year-end 2008 Business Update conference call. And ask that you please disconnect your phone lines as well as your webcast browser. Thank you.