25-Jan-2012

E*TRADE Financial Corp. \( (\text{ETFC}) \)

Q4 2011 Earnings Call
CORPORATE PARTICIPANTS

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

OTHER PARTICIPANTS

Daniel F. Harris  
Analyst, Goldman Sachs & Co.

Eric Bertrand  
Analyst, Barclays Capital, Inc.

Richard H. Repetto  
Analyst, Sandler O'Neill & Partners

Howard H. Chen  
Analyst, Credit Suisse (United States)

Patrick J. O'Shaughnessy  
Analyst, Raymond James & Associates

Keith A. Murray  
Analyst, Nomura Securities International, Inc.

Chris Harris  
Analyst, Wells Fargo Securities LLC

Michael Roger Carrier  
Analyst, Deutsche Bank Securities, Inc.

Joel M. Jeffrey  
Analyst, Keefe, Bruyette & Woods, Inc.

Chris J. Allen  
Analyst, Evercore Partners (Securities)

Brian B. Bedell  
Analyst, International Strategy & Investment Group, Inc.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.
MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us for E*TRADE Financial’s Fourth Quarter and Full Year 2011 Conference Call. Joining me today are Steven Freiberg, E*TRADE’s Chief Executive Officer; Matt Audette, Chief Financial Officer; and other members of E*TRADE’s management team.

Before turning the call over to Steve, I’d like to remind everyone that during this conference call the company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance.

E*TRADE Financial cautions you that certain factors including risks and uncertainties referred to in the 10-K’s, 10-Q’s, and other documents E*TRADE files with the Securities and Exchange Commission could cause the company's actual results to differ materially from those indicated by a projection a or forward-looking statement.

This call will present information as of January 25, 2012. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statement made in the presentation.

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

This call is being recorded, and a replay of this call will be available via phone and webcast beginning this evening at approximately 7 p.m. This call is being webcast live at investor.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

With that, I will now turn the call over to Steve Freiberg.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Operator, thank you. Good afternoon and thank you for joining today's call. I will begin by covering highlights from the year, address a few items from the quarter, and then Matt will take you through the results. I will follow with additional comments, after which we will open up the call for questions.

Let me begin by saying I am pleased to report that 2011 was the company's first profitable year since 2006. It wasn't an easy year by any measure, but we maintained a focus on the business and on our customers and are proud of the way our team executed. We faced challenging headwinds during 2011 including a near zero interest rate environment, which pressured our spread and net interest income; global macroeconomic uncertainty, leaving many retail investors less engaged than they otherwise would have been; and continued stress in real estate.

However, we proactively worked to mitigate these environmental pressures as we grew brokerage-related cash by 13% during the year, offsetting the majority of spread compression, as the 12 basis points contraction in spread only led to a $6 million decline in net interest income.

Despite the macroeconomic challenges, we grew DARTs by 5% during the year as we continued to increase accounts and assets. And we continued to aggressively focus our loss mitigation strategies including short sales,
loan modifications, and transfers to higher touch servicers. Separately, the company transitioned regulators during the second half of the year from the OTS to the OCC and the Fed.

Throughout 2011 we focused our efforts on strengthening our core business and, in addition, have made significant strides in de-risking the company. I will now highlight several key accomplishments that have enhanced our strategic position.

First and foremost, we remain focused on strengthening the final position of the company. We moved forward on many fronts as we progressed from significant losses in 2007 to profitability in 2011. In addition, we increased our capital levels and ratios, and with the exception of a slight dip in Q4, our capital levels at both the bank and the parent are the strongest in the firm's history.

Finally, we continued to improve our risk profile as the legacy loan portfolio declined another $3 billion during the year, while delinquencies improved double-digits.

The portfolio ended the year at $13.2 billion, down 60% from its peak. With regards to our core brokerage franchise, we made solid progress on improving our competitive positions. During 2011 we nearly doubled the amount of net new brokerage accounts over last year's levels and brought in net new assets of $9.7 billion, up from $8.1 billion in the prior year. Additionally our attrition rate decreased nearly 200 basis points to a firm record, 10%.

We continued to grow our institutional businesses. Our Corporate Services Group brought on 46 new clients in 2011, and starts the year off well with a pipeline of 33 clients. Our Market Making business grew revenue in a tough environment and increased its external NMS order flow.

Finally we remain committed to enhancing our market position in the long-term investor segment. While, this is a relatively new focus for us, we continue to grow balances and accounts, and we are building a solid foundation for this business. Our sales force initiative is a very important element of this strategy. In 2011 we grew our team of financial consultants by 42% and remain committed to this effort.

We also announced a number of enhancements and new products during the year. We launched E*TRADE Pro Elite for our most valuable active traders; Portfolio Margin; expanded CNBC contact; algorithmic charts; a number of new options tools; and we introduced the E*TRADE Community. We launched a number of enhancements for E*TRADE Mobile, including mobile check deposit capability for the iPhone. We expect to launch on the Android very early this year.

Finally, we continued to expand our investor education offerings across a number of channels including online videos, live and on-demand web seminars, and live events. Total interactions with our education platform increased 63% from last year to over 1 million.

Finally, as it relates to fourth quarter results, several unique items impacted business performance, and in a moment, Matt will take you through the details. It is noteworthy to emphasize that for the quarter and year our franchise metrics were relatively solid as we continued to grow the key business drivers.

I will now turn the call over to Matt.
Thank you, Steve. For the fourth quarter, we reported a net loss of $6 million or $0.02 per share on revenue of $475 million. These results included a few items unique to the quarter. First, we recorded a $46 million recovery to charge-offs resulting from a settlement with a third-party mortgage originator. Second, we increased the qualitative portion of our allowance and made an adjustment to our valuation methodology for certain homes in the process of foreclosure. Third, we recorded a $10.8 million expense related to the settlement of class action lawsuits. Fourth, a $7 million reduction to the ARS reserve established in the third quarter. And finally we expensed $8.7 million related to internally developed software costs, which were previously capitalized.

For the full year, we recorded net income of $157 million or $0.54 per share, compared with a net loss of $28 million or $0.13 per share in 2010. In addition to the unique items from the fourth quarter, our full-year results included a $48 million reserve for settlements and repurchases related to auction rate securities, and a $62 million tax benefit related to the taxable liquidation of a European subsidiary.

In the fourth quarter, we generated $475 million of net revenue, down from $507 million in the third quarter, and $518 million in the fourth quarter of 2010. Our fourth quarter revenue included net interest income of $289 million, a sequential decline of $16 million, as our net interest spread declined to 266 basis points from 281 basis points in the prior quarter, reflecting lower loan yields, a decrease in margin balances, and the current rate environment.

We continue to expect spread to compress during 2012, and given the continued challenges of the interest rate environment, we expect that our spread could average slightly less than 250 basis points for the full-year 2012. Again, I would highlight that this assumes no change to our current balance sheet strategy.

Commissions, fees, and service charges, principal transactions, and other revenue in the fourth quarter were $156 million, down 14% from both the third quarter and the same quarter of 2010. This decrease was driven by lower DART volumes versus both periods and a decline in the average commission relative to the fourth quarter of 2010.

Revenue in this quarter also included $30 million of net gains on loans and securities, including a net impairment of $3 million. Expenses fell by $37 million from the prior quarter, largely as a result of the auction rate securities reserve and the true-ups to FDIC charges included in the prior quarter.

Included within the fourth quarter is a seasonal increase in advertising spend, as well as an $8.7 million expense related to a review and the resulting adjustment of costs associated with internally developed software. The adjustment resulted in increases to operating expenses of $7.4 million to compensation and benefits, $3 million to professional services, and a $1.7 million reduction to depreciation and amortization. Finally, we reported a $10.8 million expense related to the settlement of the class action lawsuits.

Turing now to the metrics. DARTs for the fourth quarter were 140,000, a 15% decline from last quarter and down 7% from a year ago. For the full year, DARTs were 157,000, up 5% from 2010, and represented quite a volatile year in retail trading. During 2011 we experienced an all-time record high for trading volumes, as we executed nearly 360,000 trades in one day following the U.S. debt downgrade.

Net new brokerage accounts were 10,000 in the fourth quarter, down from 13,000 in the prior quarter and 28,000 in the fourth quarter of 2010. For the full year, net new brokerage accounts were 99,000, nearly double the 54,000 we recorded in 2010. I would also note that brokerage account attrition was a record low of 10% for the full year, down from 12% in 2010 and 13% in 2009. While we constantly aim to improve customer retention, we are quite pleased with this improvement and it’s a testament to our investments in sales and service.
Net new brokerage assets totaled $9.7 billion for the full year, up 20% from last year and inclusive of $1.7 billion in the fourth quarter. We ended the year with $28 billion in brokerage related cash, an increase of $3 billion during the year. Meanwhile customers were net buyers of $3.8 million of securities. Margin receivables ended the year at $4.8 billion and averaged $4.9 billion during the quarter, down from $5.4 billion during the prior quarter and flat with the year-ago quarter.

Our legacy loan portfolio ended the year at $13.2 billion, a contraction of $664 million during the quarter, and is now down 60% from its size at the peak. For the full year, the portfolio contracted $3 billion, largely reflecting $2.3 billion in paydowns. I will cover more on the quality of the book in a moment, but first I would like to address this quarter's provision.

During the quarter we booked a provision for loan losses of $123 million which included a recovery of $46 million related to a mortgage repurchase settlement; a $15 million collateral valuation write-down for certain loan for the process of foreclosure; and a $67 million increase to the qualitative component of the allowance, which now stands at $124 million. The $46 million repurchase settlement, which was disclosed in our most recent 10-Q, was the largest single settlement we have received to-date and brings the total to just over $335 million during the life of the put-back program.

The $15 million collateral valuation write-down relates to a change to our processes of using automated valuation models, or AVMs, to estimate the value of the property in cases where we haven't obtained a full appraisal or other property-specific information. The increased write-downs are intended to refine the estimate for property conditions not fully captured in the AVM method of valuation. While this change resulted in an increase to our current provision, we do not expect it to have a material impact on the losses we will ultimately incur.

Turning now to the $67 million increase in the qualitative reserve. As we transition bank regulators from the OTS to the OCC, we are evaluating programs and practices that were designed in accordance with guidance from our prior regulator. While we work to align certain policies and procedures with the guidance of our new regulators, we have suspended certain modification programs that will require changes.

We anticipate this retooling process will take some time to complete, and as a result we expect to execute fewer modifications in 2012. Therefore, we increased the qualitative reserve to reflect additional estimated losses during this period of reduced activity in our modification programs, as well as uncertainty around certain loans modified under our previous programs. Once the necessary changes to these programs have been implemented, we will reassess the overall qualitative reserve to ensure it's at the appropriate level, always keeping in mind the guidance of our new regulators and generally accepted accounting principles.

As a reminder, the overall qualitative reserve also accounts for uncertainty in the performance of the modified loans, as well as a variety of economic and operational factors not directly considered in the quantitative loss model.

So to summarize, prior to including the items I just described, net charge-offs for the quarter were $151 million and provision was $87 million, which compares favorably to last quarter's charge-offs of $157 million on provision of $98 million.

Turning back to the performance of the portfolio, loan charge-offs for the full year were $649 million, down 30% from 2010. The performance of our legacy loan portfolio continues to benefit from aggressive loss mitigation strategies, including the use of servicers that specialize in troubled assets. Through 2011 we transferred a total of $3.2 billion of loans to higher touch servicers, including $850 million during the fourth quarter, completing the majority of planned transfers.
These special servicers have historically been effective in reducing delinquencies through loan modifications and more aggressive outreach to borrowers. With regards to the performance of our existing modifications, we saw stability during the fourth quarter in the average re-delinquency rate 12 months after modification, which was 29% for one- to four-family loans and 42% for home equity loans.

Additionally, we do not expect loan resets to be a material driver of credit costs as less than 1% of the one-to-four family mortgage portfolio is expected to experience a payment increase of more than 10% during the year. And more importantly, nearly 70% are expected to reset to a lower payment. In total, we expect approximately $3.2 billion in one- to four-family mortgages to reset in 2012, of which $1 billion are resetting for the first time.

With respect to capital, our position remained flat to last quarter's level. For the year as a whole, the bank generated $411 million of regulatory risk-based capital, and $228 million of Tier 1 capital. As of December 31, 2011, the bank's Tier 1 capital ratio was 7.8%, and its risk-based capital ratio was 17.3%. In addition, our consolidated Tier 1 common ratio was 9.4%. Under Basel III in its current form, we estimate this ratio will also be approximately 9.4%, which is well above the 2019 fully phased-in requirements.

The primary difference in the Tier 1 calculation under Basel III is the capital treatment of unrealized gains and losses on available-for-sale securities, which will also make this ratio inherently more volatile than other capital ratios.

Turning now to dividends of excess capital out of our bank. As we stated last quarter, we have begun the process of requesting a more comprehensive dividend from the bank to the parent. Our thinking on the timing of this process has not changed, and our objective is to complete this dialogue sometime in 2012, after which we should have a better idea on the timing of the dividends. However, we reiterate that the relationship with our primary regulator’s very new, and we cannot predict the timing or likelihood of approval for any such dividends.

Corporate cash ended the year at $484 million or just under 3 times our annual of that service. This increase of $46 million from the prior quarter related to settlements between the parent and subsidiaries for overhead cost sharing arrangements, dividends from non-regulated subsidiaries, and year-end tax settlements. Going forward, we would expect corporate cash to decline generally in line with our corporate interest expense.

However, I would also point out that our parent houses roughly $0.5 billion of deferred tax assets, which will ultimately become sources of parent cash, as the company subsidiaries will reimburse the parent for the use of its DTA.

With that, I will turn the call back to Steve for closing remarks.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Thank you, Matt. Before taking questions, I would like to share a few additional comments. As I said earlier, I feel positive about our franchise and headwinds, be as they may, we will continue to enhance our franchise position.

In addition to several new products in the pipeline for launch in early 2012, we are enhancing the way we position E*TRADE by broadening our advertising and platforms to better address both the trading and long-term investing needs of consumers. To that end, we have several new platforms and products ready or near ready for launch, including a completely new public website experience, our storefront for prospects. Launched just weeks ago, we are currently directing just under 50% of visitors to the new site. We expect it to be fully rolled out within weeks.
In addition to a new look and feel, the site features streamlined information and digital design, clearer pathing and differentiated experiences for distinct customer segments, plus tools for investment, decision-making, and guidance.

Our new customer site, E*TRADE 360, is in the final phase of testing with a select group of customers and is scheduled for a full franchise launch within a few weeks. We are very excited about this website, which makes online trading and investing faster, easier, and more powerful by giving customers everything they need on one dashboard, the ability to choose and customize favorite features, and a graphical view of accounts and the markets.

Retirement planning is a key priority for E*TRADE, and during the past couple of years, we have significantly enhanced our suite of products in our Retirement Planning Center. And we are currently featuring this subject in our Client Education Center. Our commitment to delivering a best-in-class retirement experience was reinforced by Kiplinger's The Best of Everything 2011, where E*TRADE was recognized as having the best retirement planning calculator.

Additionally, we have refocused our advertising messages beyond trading and extended our brand position to align with the needs of long-term investors. The advertising has evolved to showcase the full range of investing solutions available at E*TRADE. In addition to touting the latest enhancements to our already robust online offering, we've expanded our messaging to highlight investment professionals and retirement solutions.

From a financial standpoint, we are cautiously optimistic that customer activity levels will increase, albeit modestly from 2011 levels. Thus far in January, we have experienced an 18% sequential increase in DARTs compared to December. With respect to the loan portfolio, we believe it will continue to decline at roughly $600 million to $650 million per quarter. We expect delinquency trends to continue to improve, although the pause in certain modification efforts will likely impact net charge-offs in the near term.

We will continue to focus on executing our strategic plan, building on the progress and momentum we have generated over the past year. Specifically, we expect to increase the growth rate of net new brokerage accounts and customer assets, which in turn should drive growth in DARTs margin and brokerage cash.

Finally, given the macroeconomic uncertainty and the near zero interest rate environment, we believe it is prudent to target expenses to be down mildly from 2011.

With that, operator, we're ready to take questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Daniel Harris of Goldman Sachs.

Daniel F. Harris
Analyst, Goldman Sachs & Co.

Hey, good afternoon, guys.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Dan.

Daniel F. Harris
Analyst, Goldman Sachs & Co.

I wanted to touch back here on the NIM; thanks for some of the color you gave us. So I think that you said you expect that the average NIM for the year would be 200 – could be below 250 basis points. So as you see the ten-year or the yield curve as it stands today, how should we think about the progression of that through the course of the year, assuming that margin loans hold roughly in line here at around $5 billion?

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Hey, Dan. It's Matt. So I think that you're correct, slightly below 250 basis points for the year. And I think the best color, incremental color, I can add is, it's going to happen pretty quickly, so meaning Q1.

Daniel F. Harris
Analyst, Goldman Sachs & Co.

Okay. Thanks, that's helpful. And then wanted to talk a little bit about you gave some color around the ability to upstream capital to the parent. But as we think about the year-end, the debt that you have outstanding, specifically the 12.5, what's the thought process around retiring those towards year-end, whether that's retiring or refinancing them in the market?

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So we're absolutely focused on those, Dan. I think, if you go back to last year just looking at our ability to issue or refinance, we issued at 6.75 back in May. The markets have definitely increased since then, but we feel like sitting here today that refinancing those notes at the end of the year is absolutely something that we could do.

It would most certainly be our preference to upstream capital out of the bank and pay those off. But as I said in the prepared remarks, that's some dialogue that we're having with our regulators throughout this year. It's not something that we would have any additional color on today. But from a refinance perspective we are absolutely focused on that.
Okay, great. And then just lastly, I just want to talk through the expense guidance. So it sounds like what you're saying is, all else equal, we should expect that the expense number in 2012, excluding any one-time items, would be below what we saw in 2011?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.  
That's correct.

Daniel F. Harris  
Analyst, Goldman Sachs & Co.  
Okay. Thanks very much.

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

Eric Bertrand  
Analyst, Barclays Capital, Inc.  
Hey, guys, thanks. The earnings release commented on the additional reserves and write-down being an important step, which from my seat would suggest that this is actually an evolutionary, ongoing process. Can you frame the magnitude of potential further write-offs or valuation allowance that are under review, or is this actually done and it was just kind of a conservative statement?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.  
Sure. Hey, Eric, it's Matt. So I think the, just, high level on what we discussed in the release and the prepared remarks. So we were early in the stages of our transition from the OTS to the OCC, and as a part of that transition we're going through our policies and procedures to make sure that we conform. Anything that under the OCC, is, they either have different guidance or different focus than the OTS had. And loan modifications is one of those areas. So as we discussed, we're working through making changes to those programs to make sure they're in line with what our regulators expect. But I think the key thing I would highlight here is that's ongoing.

So where we sit today, we expect that the $67 million increase to the qualitative reserve is appropriate for this quarter, but I’d keep in mind the allowance itself is inherently uncertain, and it's an estimate. And as we finish these changes, as we work through these discussions with our regulators, it could change in the future. But where we sit today the $67 million increase is absolutely our best estimate.

Eric Bertrand  
Analyst, Barclays Capital, Inc.  
Okay, that's helpful. Also in the prepared remarks, I believe Steve commented on a whole bunch of new products and services that are coming online over the next couple of weeks, and seemingly needing advertising support. With that in mind how do you envision your ad spending footprint and geography over the course of the year?

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.  
Yeah, let me comment on a few points. One, which I think I addressed in the prepared remarks, that it's the evolution of our advertising. And hopefully in the playoff games, and typically we kick off in the Super Bowl, our new advertising, and you should see not only interesting advertising, but advertising that covers both investing as well as trading as we try to broaden out successfully the firm.
That said, from the standpoint of spend, I would say our spend levels will more or less be in line in 2012 with roughly what we spent in 2011, although what we do believe is that we learn and get smarter. And so the effect of this and the efficiency of our spend should improve with the passage of time, but we don’t see a material change. You may see some reclassification of the change between media, between online, and other promotion, but largely speaking, I would say the spend in 2012 will be similar to the spend in 2011.

Eric Bertrand
Analyst, Barclays Capital, Inc.

Great. That’s helpful. Thank you.

Operator: The next question comes from the line of question Rich Repetto of Sandler O’Neill.

Richard H. Repetto
Analyst, Sandler O’Neill & Partners

Yeah, good evening, guys.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Hi, Rich.

Richard H. Repetto
Analyst, Sandler O’Neill & Partners

Hi. I guess the first question, as long as we’re talking about expenses and the guidance of lower expenses, but if you looked at this quarter, Steve and Matt, the comp was higher than it’s been in a couple of years. I know you’ve been adding people; I think that’s probably what it is. But when you get pre-provision revenue at the lowest, you had the comp at the highest. Is that because of the added head count or how...?

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

No, I think largely, it’s one of the unique factors that Matt had addressed, and it was in the prepared remarks that the expense, the one-time expense, and I’ll let Matt go through it in detail, that had been amortized, but through review, the expectation was to be expensed – these are developmental expenses. The majority of what was ultimately a $9 million expense showed up in comp and ben with this particular quarter, so it distorted it. And Matt, you may want to share just another point or two on that.

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Yeah, sure. So, Rich, the IDS item that I talked about in the prepared remarks actually hit three different line items on the income statement. Steve’s point, it hit comp and ben the most, of $7 million. It also increased professional services $3 million, and it reduced depreciation and amortization by $1 million. So if you take all those together, I think that’s the $9 million that Steve commented on. And then the ARS Freudenberg reserve and the other items that I speak to, when you put all those together, it increased expenses in the $15 million to $16 million range.

So if you exclude those, Q4 expenses are around $290 million, which I think for some time now we’ve talked about, we think that’s about the right run rate for each quarter’s expenses, and broadly $1.2 billion for the year.
And I think that’s the focus we’ll continue to have with the philosophy of get more efficient and save on non-customer-facing areas and invest in the customer-facing areas, but keep things net flat to down.

Richard H. Repetto  
Analyst, Sandler O’Neill & Partners

Got it, that’s very helpful. And then, Matt, you gave some, what do you call it, detailed guidance on the NIM for 2012. And I’m just going back, it was – but you did – the previous statement was 250 basis points over time, and we never really knew where the NIM would reach that point. And you’ve correctly pointed out that other people have a lot of brokerage cash sitting on their balance sheets that weigh down their NIMs. And that’s why yours was 250 basis points and someone else’s was 180 basis points.

But I guess the question is, if you strip out the seg cash effects of some of these other guys like the big competitor, now they’re down to a run rate of more like 220 basis points. So, your longer-term run rate in this kind of environment, where would that stand now?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Sure, so the 250 basis points, the slightly below 250 basis points was for 2012. I think if you – especially given the Fed’s comments today of keeping rates at near zero through the end of 2014. When you get – and I won’t be too be precise to each year – but when you get beyond 2012 in that rate environment, it would definitely float down some more. I mean, being very broad, I’d say 10 more basis points is probably as good an idea as any. But we don’t see it being meaningfully below that.

Richard H. Repetto  
Analyst, Sandler O’Neill & Partners

Okay. And then the very last question, Steve, I guess bigger picture, given the Fed announcement today. When you gave your presentation at conferences around year-end, you talked about what a normalized – that pre-tax could be in a better environment, higher interest environment, above $1 billion in pre-tax.

Now the interest rate environment, this sort of pushes us back. Is there any modifications to your plan besides just it being pushed back by an outside force? Does the Fed impact any other plans as you march towards this higher earnings rate?

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Let me try to answer the question, if I fully understand. Just a couple of points, which I think help with the actual frame. One is, spread’s important, no doubt about it. Half our revenue is net interest income, more or less. I did say actually in my prepared remarks that even in 2011, where we did see, roughly speaking, on a full-year basis, 12 basis points of spread compression, we almost completely covered it just growing the franchise.

So these are in aggregate, so absolutes against absolutes. So part of what we want to do – and it goes back to launching new prospect webs, new customer sites, smarter about our advertising – is grow your business faster so the volume basically offsets some of the rate compression, which by its very nature is likely, I think, to Matt’s point.

The second is, if the environment were less challenging – let’s talk about spreads – we probably would be investing more to grow the franchise more rapidly, but we’re constraining our, basically, our expenditures in the light of understanding the dynamics of expense, revenue and provisioning.
So what we're trying to do is to manage the business smartly and de-risk it in the context of the environment that we're facing, which is the same environment that our competitors are facing. And you'll see with the passage of time that if the environment shifts, if basically Europe gets some degree of buoyancy, maybe we see a different set of activity in trading that will also generate typically an expansion of margin that will change spread.

We have over the next several years a fairly large book, which has clearly disclosed a very expensive wholesale funding, which will roll off our balance sheet, where we're paying 4% and 5% for that money. So there's a lot of dynamics that run through, Rich, and part of what we think we do reasonably well is to understand those dynamics and try to find the best mix of that given the environment.

But that said, if rates were going to stay absolutely low and flattish for three or four years, it will pressure the overall spread. And the question is, how fast can you grow to get a volume offset, or how smart can you be on changing somewhat of your balance sheet strategy, when you look out over the horizon?

But that's – I think what we tried to do here – which we haven't really done in the past, we started I think a quarter or so back – is give you a better sense of what we think the broad-based spread would be in an environment that stays relatively constant. And I think when Matt said in his prepared remarks, it said, assuming no change in balance sheet strategy and more or less the rate environment that we see at the moment.

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

Howard H. Chen
Analyst, Credit Suisse (United States)

Hi, Steve. Hi, Matt. Good afternoon. Just aside from the treatment of modifications, what are some of the other programs and policies we should be watching that could be treated differently between the OCC and OTS?

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So, hi, this is Matt. I think the comment I made a bit earlier, it's early in the transition. And I think one of the key things that highlight the differences between the OTS and the OCC and the Fed, is, the OTS was more of an annual review program versus the OCC. And the Fed are more in-resident, so the dialogue is more active. So we don't have anything additional to highlight today, other than to say that it's early in the transition and we do have active dialogue with them.

Howard H. Chen
Analyst, Credit Suisse (United States)

And is this sequential in the sense that like you have to – OCC is your primary regulator today and they need to conform with everything of theirs before you go to the Fed, or is it all happening at the same time?
Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

I think the OCC and the Fed work with each other quite well. So it’s an in parallel thing.

Howard H. Chen  
Analyst, Credit Suisse (United States)

Okay, great. And then just one more on this. During the prepared remarks I thought I heard you say this quarter reserve actions wouldn’t affect you view on losses. But then I thought I heard Steve say at the end, it could impact charge-offs a bit. So did I miss something in all that?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So I think you might be focusing on the AVM comment. So to add a little bit more clarity there, the change there was in our process to estimate the losses on loans when there’re 180 days past due. So we have a refinement to that process, but we don’t expect any change. The ultimate losses we have once we foreclose on the property and sell it. Meaning the ultimate severity is the one to four, which would hover in the low 40%. We don’t have a different view on that. We just had a refinement to the process at 180 days delinquency.

Howard H. Chen  
Analyst, Credit Suisse (United States)

Okay. Thanks. And then I know your overall philosophy on securities gains vis-à-vis the provision expense and that make sense to me. I’m just hoping you could give us a flavor for what you continue to sell in this type of environment on the securities book, and maybe how that’s evolved over the last couple quarters?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So there’s really been no change. The securities book is pretty much plain vanilla agency securities. So there’s nothing different in there. There’s an active program to manage in this interest rate environment. I think the key theme I think we would leave you with is we go back to 2009 and 2010, where the gains overall were in the $150 million to $50 million range, our expectation is that floats down over time. So you saw that in 2011. It came down to $120 million. We would expect that trend of coming down to continue.

Howard H. Chen  
Analyst, Credit Suisse (United States)

Okay, thanks. And then just final one from me, Matt. I mean, not to beat a dead horse, but on the spread guidance, not to look too far forward, but if you’re saying another 10 basis points. I guess with loan book burning down and assuming no change in the shape of the yield curve or rates going up I just – I still struggle a bit with why like, let’s just say, 240 basis points is the floor in your mind. Can you just help kind of expand on that a little bit?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Sure. So I think Steve probably hit on the key item for us in that we’ve got a rather large wholesale funding book, roughly $8 billion, that was put in place back in 2006 and 2007. So it’s got extremely high rates. So as that portfolio runs off, it is a big offset to I think the headwinds that you’re probably – have in your mind that would drive it below 240 basis points.
So that’s, probably, that’s the big item, and that’s our estimate. But of course, as you know, as we go through – as time will tell, we’ll see. But our best estimate is slightly below 250 basis points for this year, and it could be another 10 basis points beyond that.

Howard H. Chen
Analyst, Credit Suisse (United States)

Great. Thanks for taking all the questions.

Matthew J. Audette
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Sure.

**Operator:** Your next question comes from the line of Patrick O'Shaughnessy of Raymond James.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates

Hey, good afternoon, guys.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Hi, Pat.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates

Hi. So I wanted to chat a little bit about the brokerage side of the business. What are you looking at on the brokerage side in terms of your hiring for the Corporate Services Group? Or some of the trends that you see in your customers that maybe gives you some optimism that trading’s going to be a little bit higher in 2012 than 2011?

And what sort of traction do you think you’re basically getting with your Corporate Services Group, and how soon is that going to be reflected do you think in some of your performance?

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Yeah, just a couple points. One, we think the Corporate Services Group had an extraordinary year in 2011. And we’ll see, in majority, the fruits of that labor more in 2012 as the majority of those customers get boarded. There’s clearly a period between when you sign contracts and you actually bring them on.

The volumes themselves year-on-year going from 2010 to 2011, meaning new customer assets, were probably close to double. And the pipeline as I said earlier is extremely thick, and so that business has just been on a tear. And the volume, though, when you actually see trading volume, in a bullish market, remember what underlies this are largely employees that have options and equity that will vest.

And so that if the markets have been muted as they have been, you don’t see a lot of option exercised. But once the markets move in a direction that is positive, we’d expect to see both the base as well as the overlay of new client or new customers perform extraordinarily well, because these are terrific companies with great prospects overall.
So very optimistic. The volumes keep growing, meaning signed contracts, new customers coming on. We keep enhancing the platform that we already believe is the best platform in the industry. And I would say that business in 2012, 2013 should continue to base and contribute quite smartly.

And the added benefit, as I think you all know, is that the average commission per trade that we get out of that business is far superior to that we get out of basically the traditional retail business. So it helps mix, in addition. So it’s sort of a win-win, but that’s been, again, nothing short of extraordinary.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates

Great. Thank you, that's helpful. And then my follow-up question, switching gears to your Market Making business. There's been announcement by a couple of relatively large investment banks that they're going to be entering the wholesale trading business.

What sort of threat do you see that to your Market Making business, because obviously every little bit matters at this point? So how do you view the competitive environment in that area?

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Well, we always respect that a new competitor's entering the industry. I've had a number of conversations with the people that run the Market Making side. I would say, on balance, we are confident that we will actually maintain or improve our share with the passage of time. We invested a fair amount in 2011, particularly in areas like collocation, where we move essentially side-by-side with a number of our key clients to increase speed and execution.

I think we're doing a good job of managing that cost at the price we're currently at. We are doing probably as much as anybody, if not more, in terms of pushing the envelope on fuel efficiency. When you look at our new engines, the leader configuration of our fleet, the aerodynamics in the chassis in the tractor, the trailer blades and the aerodynamics we're pushing the edge on as far as our trailers, our concern, the work that's going into developing our drivers to where they are good at fuel efficiency, it's receiving an enormous amount of attention.

So I'm that optimistic as far as fuel is concerned. As far as drivers are concerned, our drivers need to make more money. And, really, though, we want them to make more money. And whereas I felt like things were very inflationary, maybe couple or three quarters ago, I'm not feeling that same way today. And I'm hoping that this year's rate increase, more of it can go towards — go to our drivers so that we can continue to get them to a level where we would like for them to be. And so if we can, we're going to. And if we can't, we won't. But I don't feel really like the driver line has to be inflationary, but I still like that it would be good if it could be. Does that sound crazy to you, Bill?

And we're seeing actually not only good take-up of that, but we think it's a good path for us to continue to grow. And again, I'd never discount new competitors moving in, but we think by and large we have scale. We have basically state-of-the-art capabilities, and we'll continue to push on that.

We also have the advantage of about half our flow through that business is our own, and now about half of our flow is third party or external. And we're continuing to leverage both our own flow as well as scale.
So I can’t predict. We’ve seen this happen before, but I would say by and large we’ve prevailed, and we continue to basically pick up share where we think it’s important to pick up share. Because as you would also know, this is a business where not all volume is either effective and/or good volume.

Patrick J. O’Shaughnessy  
*Analyst, Raymond James & Associates*

Very true. All right, thank you very much.

Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

Okay.

Operator: Your next question comes from the line of Keith Murray of Nomura.

Keith A. Murray  
*Analyst, Nomura Securities International, Inc.*

Hi, guys. Can you just touch on the tax rate in the quarter: I mean, it looks like you had $7 million of taxes on, you had roughly $800,000 of income?

Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

Well, I’m going to let Matt take that one, but obviously we’re good Americans. We pay more than our fair share.

Matthew J. Audette  
*Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.*

Hey, Keith. It’s Matt. So the key reason there is our taxable income is slightly higher than our book income. And the key reason for that is a decent sized portion of our corporate interest expense, specifically on the springing lien notes, is not deductible for tax.

So while we have pre-tax income of just around $1 million, the amount of income we actually have to accrue taxes on is a much larger number. I think the best way to think about taxes over the long-term is in a range of 40% to 45%. But anytime we’re relatively close to breakeven that non-deductibility of the springing lien notes is going to make the reported rate look pretty interesting, like it did this quarter.

Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

Yeah, and I think just goes to the point that we – or the question we answered earlier. Clearly it’s compelling for us when the opportunity arises either to refinance, pay down, or some combination there, the springing lien notes. Because not only do they carry 12.5% coupons and almost $1 billion of debt, but largely they’re tax inefficient, in addition.

So we get to pay twice: one, very high coupons; and the other is we don’t get the benefit of tax deductibility, which is really not helpful. So for those of you who weren’t aware, it’s clearly the challenge of that legacy that we’d like to reduce or eliminate.
Keith A. Murray  
Analyst, Nomura Securities International, Inc.

Thanks. And then on E*TRADE Bank's Tier 1 leverage ratio, it went down slightly in the quarter. And I noticed in one of the footnotes it mentions that other risk-weighted assets increased. Could you provide any color on that?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Sure. So specifically, the Tier-1, the risk-weighted asset change would really be on the risk-weighted ratio. And I think the key thing on the leverage ratio for the bank is that the overall amount of capital in the bank didn't change. It's roughly $3.4 billion, but our assets increased during the quarter. And that was driven by the increase in deposits through brokerage-related cash. So when from a leverage ratio perspective it comes down, we think that's a good thing in that perspective because we generated more brokerage cash. So that's the reason for the decline there.

Keith A. Murray  
Analyst, Nomura Securities International, Inc.

Thanks. And then last one, the 5% increase in the early-stage delinquencies and home equity. I mean, what's the key factor driving that? Is it a certain geography, or what specifically have you guys seen?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Yeah, we would classify just even the overall increase in special mentioned delinquencies for the quarter at 2%, 5% on the home equity book. Q4 is typically a seasonally challenging quarter. So from our perspective, that 2% increase overall. And then the 5% on home equity, keep in mind it's less than $10 million. It was a relatively good performance for Q4.

Keith A. Murray  
Analyst, Nomura Securities International, Inc.

Got you. Thanks.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Yeah, actually just before we finish up the question, looking at basically coming off the same data, I think the context here is important across the year as well. And notwithstanding that the fourth quarter tends to be a more seasonally challenged period and we didn't see a lot of seasonality, which was positive, that if you look at the one-to four-family, the actual current balances over the year came down about 15%. The delinquencies, though, 30 days to 179 days, came down 30%.

And if you look at the home equity book, the book basically shrunk by 17% on the current across the year, but the delinquencies came down by 20%. And given these are liquidating portfolios, overall that's not bad performance, because you'd expect typically liquidating performance on a relative basis to see a higher concentration of delinquencies with the passage of time. And we actually have experienced something significantly less than that.

I can't predict that's going to be the trend forever, but nonetheless it's not a bad trend when you look at your good volume coming down at a slower pace than your bad volume.
Keith A. Murray  
Analyst, Nomura Securities International, Inc.

Okay. Thanks a lot.

Operator: Your next question comes from the line of Chris Harris at Wells Fargo Securities.

Chris Harris  
Analyst, Wells Fargo Securities LLC

Thanks, guys. Good evening.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Hi, Chris.

Chris Harris  
Analyst, Wells Fargo Securities LLC

So in your prepared commentary there, you talked about the improved environment for the broker this year, at least relative to last overall performance. I know in the past you guys have talked about increasing your hit rate on converting web prospects to customers. Have you guys made any progress in this area? I know it seems like a pretty big opportunity for you. And really any data you can share on this would be helpful.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Yeah. Just couple of points. Just to confirm, we had three good weeks relative to December. So directionally, not so bad, but again it's hard to pick with any degree of certainty how much improved 2012 will be. But we've said we're guarded optimistic, but looking for some mild improvements.

From the standpoint of statistics around conversion rates off the web, I don't have them at my fingertips. We can help you potentially offline with that. But I do want to emphasize, one of the main reasons we've completely rebuilt our prospect or our public website is to maximize the throughput from gross to net of prospects coming through that channel.

We think if you go online – now, again, we're only directing 50% of the visits to that; next several weeks we'll be up to 100%. What we're doing right now is a lot of basically testing, learning, and refining so that we optimize against essentially the new web. But that is the aim of a year's worth of work, and maybe offline we can get Brett to provide information that is in the public domain, but that's what we aim to do.

Chris Harris  
Analyst, Wells Fargo Securities LLC

Okay, great. I'll follow up after the call. And then I guess my second question here, just thinking about strategic opportunities for you guys. I know this always seems to come up, but any thought or progress about creating an RIA custodian business? I didn't know where that ranked in your strategic priorities if at all for the next year or so.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.
Yeah, I would say that it clearly is something that's on our radar. Today, we serve probably 200 or so RIAs, but it hasn't been what I would say the most strategic of the priorities for us. And so, we understand the industry; we understand the growth in the industry. Clearly it's an area that over time we think to be important.

But in the world of prioritization, it's just not risen to the top of the priority list for 2011 into 2012. But I wouldn't discount, in the period that would look out several more years, that we wouldn't take a more aggressive stance there. But at this point in time, I wouldn't expect that to be a strategic high-priority focus for 2012. We have other things that we think provide us more income, more leverage, more opportunity, at least in the short term.

---

Chris Harris  
Analyst, Wells Fargo Securities LLC

Okay, Steve, thanks.

---

Operator: The next question comes from the line of Michael Carrier of Deutsche Bank.

Michael Roger Carrier  
Analyst, Deutsche Bank Securities, Inc.

Thanks, guys. And just maybe one more on expenses. If I look throughout the year, your net new assets, your account growth, like everything has been turning in the right direction, head count's up. And so when you say flat year-over-year, I'm just wondering, the areas that you're investing versus where you can pull back, like where should we look for that? Because it seems like the trends are good, and it seems like the expenses are already pretty low so there should be some investment?

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Yeah, I think what you'd expect to see, which is what Matt and I have said now consistently, we'll continue to invest in, I'll say, sales and marketing, although as I said earlier I think marketing will be more stable year-on-year, given that we upped some spend between 2010 and 2011 on the marketing front.

And I would expect to continue to increase our sales capability both in our national sales centers as well as in our physical approximate branches. But again we're not talking about substantial amounts of investment. And obviously the complement to that is, if we're going to decrease expenses overall, again to Matt's comment earlier, it's going to come from areas that have less customer impact or less strategic value to us, and we're squeezing on it.

I think we run a reasonably efficient model at this point. There're clearly some big opportunities for us on the expense side, but probably not going to be realized in 2012. Obviously as the legacy loan portfolio goes down, we probably spend $75 million to $100 million in that area that today is necessary, but tomorrow would not be.

We know we pay very high FDIC insurance premiums, so as basically the company continues to de-risk and it improves its overall financial position on a whole bunch of metrics, I would expect that expense to come down substantially, again with the passage of time. I know that Matt's gone through that in excruciating detail, but that could be another $50 million, $60 million, $70 million as well. That's where the big opportunities are on the expenditure side from the standpoint of either restructure and/or efficiencies.

But in the short term we have to basically be, what I would say, we have to be in the weeds and squeeze out expense that's not going to contribute, but reinvest it regardless of the environment in areas that we want to grow.
And so – but it's almost a full-time career for a lot of us, which is to continue to funnel it back into opportunity areas and to basically take it from where we think we get less value. It is a bit frustrating, though, that there is some very large pockets that will take time, like the two I've just addressed. And I'm not sure we can accelerate that in any material way.

Michael Roger Carrier  
Analyst, Deutsche Bank Securities, Inc.

Okay. That's helpful. And then, Matt, maybe just one more on the NIM in the balance sheet. As you mentioned on the wholesale funding, some of that rolling off, I guess any help there just on the timing of that? Because obviously we can look at the environment look at rates and how much that pressures your net interest margin. But on the funding side, when we think about as we're heading into 2013, like what portion of that can be replaced with cheaper funding?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Sure, it's not – it's going to slowly trickle down in the coming years. When we put this funding back in 2006 and 2007, it was fairly long-term, in a roughly 10-year range back then. So it's going to be years for it to float down with little chunks here and there in the coming years. So it's going to be a long time.

Michael Roger Carrier  
Analyst, Deutsche Bank Securities, Inc.

Okay. Thanks a lot, guys.

Operator: Your next question comes from the line of Joel Jeffrey of KBW.

Joel M. Jeffrey  
Analyst, Keefe, Bruyette & Woods, Inc.

Good evening, guys.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Evening.

Joel M. Jeffrey  
Analyst, Keefe, Bruyette & Woods, Inc.

Seems like we've been through most of the questions out here, so maybe I'll just ask a couple of housekeeping ones. Can you just talk a little bit about the decline in the fees and service charge line? Is that just trading related?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

It is. The commissions, fees, and service charges and principal transactions, all of those generally move in line with trading activity.
Okay, great. And then I apologize if I this missed this earlier, but can you give a breakdown of the DARTs, sort of options, futures, that type of thing?

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Yeah, I mean, I think the simple breakdown in the quarter, roughly 22% of the trades were in either options or futures. Obviously, heavily skewed to options. And the remainder were in either equities, with a very small portion of the final complement in probably packaged products like funds.

Joel M. Jeffrey  
Analyst, Keefe, Bruyette & Woods, Inc.

Great. Thanks for taking my questions.

Operator: Your next question comes from the line of Chris Allen of Evercore.

Chris J. Allen  
Analyst, Evercore Partners (Securities)

Evening, guys.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.

Hi, Chris.

Chris J. Allen  
Analyst, Evercore Partners (Securities)

Just wanted to ask quickly on the FDI insurance premium. Adjusting for the change in methodology, I thought it was running about $30 million a quarter for 2Q and 3Q. And it obviously dipped down to $25 million this quarter. Was there any change there, or is this just a function of the loan book rolling down?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

A little bit of both. So the quarterly FDIC insurance is always going to be our estimate for that quarter, and a little bit of true-up from the actual versus the prior quarter’s estimates, get a little bit of that in the fourth quarter as a credit or a reduction. And then one of the things that drove the increase in the FDIC insurance premiums under this asset-based methodology was a, call it a surcharge, if you will, for certain types of loans.

So as those loans come down, the FDIC insurance will come down as well. So I think that where we sit today, $25 million is not the run rate; it’s a little bit higher. But it’s a little bit less than $30 million.

Chris J. Allen  
Analyst, Evercore Partners (Securities)

Got it. All right, thanks a lot, guys.

Operator: Your next question comes from the line of Brian Bedell of ISI Group.
Hi, good afternoon, guys.

Hi, Brian.

Most of my questions has been answered, but just a couple. One, you talked about refinancing the springing lien notes obviously as sort of a primary target. Do you require regulator approval for upstreaming dividends from the bank in order to do that? Or is that, can you possibly do it without upstreaming capital from the bank by year-end?

Two separate questions, right. One is, absolutely we require regulatory approval to move dividends between the bank and the parent.

Right, right.

And from the standpoint of could we, would we refinance without basically upstreaming the dividends from one to the other, the answer is, we believe that the market – this is in conversations with a number of our investment banks' relations – we believe that we would refinance regardless.

Clearly we'd like flexibility, but to Matt's point earlier, this is a process that we cannot predict, meaning essentially the dividend process, we cannot predict timing with any degree of certainty.

Yeah. I would just add to that, just look back at a refinance we did back in last May; there was no dividend approved for that. So I think refinance is something we could do at the parent.

Right, okay, okay, great. And then, the second question I had is just, Steve, if you can talk about sort of what your organic growth targets are? I don't know if you have sort of an official view of where you’d like them to be, if you look at your competitors over the say, maybe the next one to two years? And considering the momentum that you've got in the corporate client business and also overlaying the productivity of the new financial consultants that you've added this year and plan to add in 2012.
Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

Yeah, I don’t think we have a precise number. But what I would say is, this past year, 2011, we grew on a net basis, ex-ing any market volatility or change, we grew net customer assets by approximately 7%, which was below Ameritrade and above Schwab, which we kind of look at when we have public data and as core competitors.

And I would say our goal would be to be at the top of the market, and we’re not there yet. We’re better than we were, and we’re moving in the right direction. But I would say the competitor that was at the top of the market this year probably grew in the low double-digits, probably a number around 11%, and we grew at 7%. I would say there’s nothing wrong basically with our capacity over time to grow.

One of the issues or challenges we have is that historically we’ve been deemed to be more of an area to come to trade. So if you come to trade, you don’t bring a lot of assets. You bring your trading assets. But we’ve been retooling, as I said, platforms, positioning, advertising, bringing in sales folks in order to essentially broaden out E*TRADE to be a great place to not only trade, but to invest.

If you are come here to trade and invest, you bring more assets. We’re already seeing, for example, new accounts generated from our financial consultants are about 6 times larger than those that are coming through basically on their own. And so we’re optimistic, but this is I don’t think you change the frame you need to get the top of market in 6 months or 12 months.

So we’re on a journey, but we’re essentially, we’re not sitting here growing at 1% hoping to grow at 11%. We’re in actually a decent position, and as we execute we think it’ll naturally basically move higher. And that’s our goal.

Brian B. Bedell  

Okay.

Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

But I don’t have a number, saying I wish we were at 10% or 12% or 14%. I just think we have to be competitive to the point where we’re as good as anybody we compete with.

Brian B. Bedell  

Right. So it sounds like obviously the fourth quarter was subdued because of the trading activity that you mentioned. And as we move into a better season coming into the year, and then some of the momentum from the corporate client business and the FCs, we should see that sort of mid 4% to 5% rate that you’ve had in the fourth quarter improve up to the high single-digits during the year, would you say?

Steven J. Freiberg  
*Chief Executive Officer, E*TRADE Financial Corp.*

And that’s we would expect, as we’ve said, and three weeks would make a trend. But not only are DARTs basically up sequentially the way we described it, 18%, but all the other metrics are moving more or less in concert with that. So you look at new accounts coming through on a net basis. You look at asset growth. If we can sustain this and no guarantee we can, things are feeling reasonably good.
Brian B. Bedell  
Analyst, International Strategy & Investment Group, Inc.  

Okay, great. That's helpful. Thanks very much.

Operator: Your next question comes from the line of Matt Fischer of CLSA.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.  

Hi, good evening.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.  

Hi, Matt.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.  

First off, when I look at – in your Q, you published the carry value versus fair value of your loans on a net basis. In the third quarter it was like $1.3 billion. Do you have that for the fourth quarter?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.  

Sure. So I think if you convert that to a price [ph] en melange (57:25) in the low 90%. So we'll have that in the 10-K, but it improved slightly.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.  

Okay. And when you say improve, it's shrinking?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.  

Well, the – so the portfolio itself is shrinking every quarter, but the price of the portfolio – so the fair market value versus the book value – that price has improved slightly in the fourth quarter versus [indiscernible] (57:45).

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.  

Okay. So slightly over 90%?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.  

Yeah.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.  

Correct.
Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.

And as – I guess there’re some government programs to try to keep people in their homes longer and with the extended period of lower rates, do you – obviously as the loan book shrinks, but also how do you look at that in terms of over time, how small? How do you close that gap? And if you kind of – through 2012 at least?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So I think the question is the impact of any government programs on the loan portfolio. I think as a general statement, if they’re doing anything there, it would certainly help us. But that’s not something that we’re counting on. We’re managing the portfolio the way we have for the past several years, which is to minimize the credit losses associated with it as it pays down.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.

Okay, great. And with the – you mentioned I believe $600 million to $650 million per quarter in run off on the loan book?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

Yes.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.

Okay. And that’s kind of, you start at $650 million and gradually work your way down, or from the first quarter through the end of the year?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

It’s a range. I wouldn’t be as precise as that. I think $600 million to $650 million is a good estimate for the quarters and year.

Matt Evan Fischer  
Analyst, Credit Agricole Securities (USA), Inc.

Okay. And lastly, with your net new assets, could you give us some color in terms of new versus existing clients? And where the accounts that are coming in, your new accounts, just where you’re getting this traction from?

Matthew J. Audette  
Executive Vice President and Chief Financial Officer, E*TRADE Financial Corp.

So as far as the mix, we don’t break it out. It definitely comes from both, both new customers and existing customers. And I think where we’re getting those customers from, I think it’s the broad trend of investors moving from the traditional off-line space to the online space is where we see our growth from.

Steven J. Freiberg  
Chief Executive Officer, E*TRADE Financial Corp.
Yeah, I mean, just add a little bit more color. And this is – and it clearly changes. Probably about one-third of our accounts are coming from brand-new customers, about two-thirds are coming from existing customers. Obviously our focus is expanding relationships with customers, and that’s basically playing through the system. Clearly it stratifies differently. If it’s coming through the sales channel, it tends to be a much larger account. If it’s coming through what I’d say the marketing channel, tends to be a smaller account, but typically grows with the passage of time.

And from your last question, how does the Corporate Services Group work through that? It’s very important because broadly speaking about 25% to 30% of our new customers over the course of time come through that channel at a very low cost per account. Although you tend not to get your very active traders out of that channel by very definition. So hopefully that kind of gives you more or less a frame.

Operator: This concludes the allotted time for today’s question-and-answer session. I will now turn the floor back over to Mr. Steven Freiberg for any closing remarks.

Steven J. Freiberg
Chief Executive Officer, E*TRADE Financial Corp.

Operator, thank you very much. And all I want to say, then, is thank you again for joining us tonight, and we look forward to speaking with you again next quarter. And have a good evening.

Operator: Thank you. This concludes your conference. You may now disconnect.