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E*TRADE Financial Corp. (ETFC)

Q3 2012 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Frank J. Petrilli
Chairman & Chief Executive Officer, E*TRADE Financial Corp.

OVERVIEW

• I’ve now served in the role of interim CEO for a little over two months and have spent nearly nine months as Chairman of the Board

• During this time, I’ve come to learn and appreciate a great deal about this firm and its management, and my confidence has never been higher that executing on the strategic plan outlined earlier this year is the right path toward creating shareholder value

• Despite our disappointing bottom-line results, we have made meaningful progress on our plan and put in place several key building blocks to drive future execution of our strategy
  o Matt will take you through the financial results and many of the specifics you may be interested in
  o But I would first like to walk you through what I consider to be the most important areas of focus and our progress against them

STRATEGIC FOCUS AREAS

• When I assumed the role of Interim CEO in August, I committed to the Board that I would place unwavering focus on four key elements of our strategy, which fit neatly within the company’s overall strategic and capital plan that we presented to our regulators in June
• My key areas of focus are as follows
  • First, expand the brokerage business
    o Now this has been at the heart of everything the company has been doing for quite some time, but it is especially important today, as we cannot lose focus of our overarching purpose marked by our goals to expand market share and to increase penetration of our existing customers’ assets
  • Second, strengthen the financial position of the company
    o This speaks to both balance sheet and the income statement, and will always be a focus but is particularly important today given the meaningful value that can be unlocked through the execution of our strategic plan
  • Third, focus on cost reductions and efficiencies
    o This obviously ties in directly with the second area I just discussed, but it is a heightened area of focus, not only while I am at the helm, but also going forward
  • And fourth, build out our enterprise risk management framework to be appropriate for our size and complexity, mindful of the current regulatory environment

Brokerage Business

• I will now take you through our progress on each of these areas of focus
• With respect to expanding the brokerage business, despite less than favorable market conditions this quarter, we were still able to bring in net new brokerage assets of $1.9B
• DARTs of $129,000 in Q3 were down 22% vs. the year ago quarter, reflective of both disengagement on the part of the retail investor, and a normalization vs. the year ago period when volatility was at a multi-year high surrounding the U.S. debt downgrade
• In October, customer trading has continued to decline
  o As of this afternoon in fact, DARTs are down 13% from September and 7% from third quarter levels

TRADE VOLUMES

• While trade volumes exhibited the seasonal slowness the industry have come to expect from Q3, the mix of our trades actually saw improvement over the period
• As options trades represented more than 25% of total DARTs
  o This continues to be an important area of growth for us
• Not only because options trades have a higher associated level of commission than cash equities, but they typically set the stage for additional transactions due to their fixed expiration dates
• And what customers appreciate most about options is the ability to generate income, or protect positions in any kind of market

PRINCIPAL TRANSACTION REVENUE

• Also relating to trading, our principal transaction revenue was up this quarter, in the face of a decline in customer trading, as our market making operations saw an increase in order flow from external parties and some benefits from disruptions amongst peers during the quarter
• Net new brokerage accounts of 18,000 bring our YTD total to 110,000, already above the 99,000 that we acquired during the full year of 2011
  o Very importantly, we are also keeping more of our brokerage accounts as evidenced by vastly improved account retention over the past few years
BROKERAGE ACCOUNTS’ ATTRITION

• This quarter marks our second best ever, with respect to brokerage accounts’ attrition
• Our annualized rate of 8.5% is up just slightly from the firm record 8.4% we saw in Q2 and 200BPS better than our levels a year ago
  o This is such a critically important statistic for us, since it encapsulates all that we are doing to drive customer satisfaction for the future profitable growth of our franchise

RETIREMENT AND INVESTING OFFERING

• Growing our retirement and investing offering is core to our strategy of expanding the brokerage business
• Not only because it builds upon a less volatile source of annuitized revenue, but it importantly serves as a pathway to deepen engagement with existing customers, thereby driving quality asset growth
• We currently estimate we hold 12% of our customers’ investible assets on average
  o We view this as a meaningful opportunity to leverage our most valuable asset, which is our current customer base, for future growth
• While we have long offered a suite of retirement and investing products and services, we have been enhancing it and turning our marketing attention toward repositioning the brand as a trusted destination for retirement assets, manage investment solutions and advice
• Part and parcel is our focus on our team of financial consultants, which we’ve grown by about 40% in just under two years, currently standing at over 270 professionals
  o These financial consultants were responsible for approximately one third of our net new assets during the quarter, and are bringing on accounts which are six times greater in size than our traditional channels bring us
  o This represents an average account size of approximately $140,000, more than double the $60,000 in average account size across all brokerage accounts
• Additionally, financial consultants have been crucial to growing our managed assets, which have now crossed the $1B mark, after less than three years since the products were introduced

RETAIL TRADING OFFERING

• We are building momentum for sustained growth in this arena
• Within this key strategic pillar of growing the brokerage business is our goal of enhancing the retail trading offering
• To that end, we continued to launch new products and services this quarter, and received some valued recognition related to our existing offerings and service levels
• Our recently-launched OneStop Rollover simplifies the process for individuals to move their 401(k) savings into a professionally-managed portfolio at E*TRADE
• With an account minimum of just $25,000, we are offering professionally-managed solutions to a population of underserved individuals
• Validated by our proprietary surveys, this product fills an important need in the marketplace, as well as in the retirement accounts of our existing and prospective customers

MOBILE OFFERING

• Our mobile offering continues to be an important part of our strategy, and we recently launched our sixth E*TRADE Mobile application, designed for Windows phone
• Mobile adoption rates among our customer base continue to grow, as 6.7% of our trades were executed via these devices during Q3, up from 4.8% a year ago
• Product enhancements, new offerings and the commitment to customer service reflect our mission to deliver the best investing experience, period
  o This mission resonates throughout our company, and as a testament to our employees’ hard work, we were recently awarded the number one ranking in Kiplinger’s annual best of the online brokers survey
  o We were also the only firm to receive 5 star ratings in both the customer service and investment choices categories
  o In addition, our Corporate Services Group received external validation of its success
• For the third consecutive year, our Equity Edge platforms were top-rated in overall satisfaction, reporting and technology by Group 5’s Annual Stock Plan Administration Study, which gauges the overall satisfaction of stock plan sponsors in the United States

Financial Position

• Moving on to our next area of strategic focus, strengthening the financial position of the company
• For Q3, we posted a disappointing loss of $0.10 per share on revenue of $490mm
• The quarter’s results contained some notable charges, including $50mm in increased provision related to new data on borrower bankruptcies and $13mm of severance for our prior CEO
  o Matt will take you through these items in more detail
• Within this key area of focus, our main objectives are to improve our capital ratios with a goal of deploying bank capital to the parent to pay off high cost debt and to continue to improve the level and quality of our earnings, as our legacy costs reduce over time
• This quarter, we made headway in terms of both our deleveraging efforts, which we view to be the best path forward for improving our capital ratios, as well as our dialogue with the regulators
  o Matt will share the details, but at the highest level, we have identified over $4B of deleveraging, including $1.3B completed during Q3, and over $3B which we have targeted for Q4
• As for our de-risking efforts, we continue to reduce the balance sheet risk with a shrinking legacy loan portfolio
• The average age of these loans is now in excess of 6.5 years, and the loan portfolio continues to become less of an overhang for this company each day

Cost Reductions and Efficiencies

• Our third area of focus relates to cost reductions and efficiencies
• Last quarter, our leadership team communicated a target of cutting $50mm from our run-rate expenses by the end of 2013, with the goal of implementing the majority within 12 months
• We spent this quarter working diligently to identify additional reductions, and more importantly, to drive efficiencies in how we do business
• I’m proud to report that the team has built upon their initial target and arrived at $70mm of reductions already identified, with a new target of $100mm in reductions from run-rate expenses by the end of 2013
  o Beyond setting and hitting our targets and central to this exercise is the philosophical change to continually drive process improvement, through efficiency gains at every level of our organization
  o I feel good about our progress here, not only as the environment demands this type of introspective review, but because it is the right thing to do for our business and for our shareholders
I have personally spoken to many groups of employees about the importance of this ongoing focus and I am delighted with their professionalism and commitment to deliver

Enterprise Risk Management Framework

My last key area of focus relates to the build-out of our enterprise risk management framework, to create a structure that is appropriate for our size and complexity

While managing risk has always been a central focus, we are dedicating additional resources and time and energy to formalizing and expanding this function

Given the enhanced regulatory environment and the updated guidelines under our new regulators, the time is appropriate for us to accelerate our focus in this area

While risk management is the responsibility of every employee at E*TRADE, it really starts with the appropriate tone at the top, which I believe we have set through internal communications and focused actions

We are enhancing our risk management structure to focus on specific areas, for example, operational risk management, capital planning and regulatory relations

We are bolstering areas like vendor management and stress testing, to highlight a few of the many areas impacted by this focus

As we mentioned previously, we expect this ongoing investment to total approximately $10mm, which includes systems upgrades and headcount as we hire additional risk management staff, compliance personnel and auditors

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

FINANCIAL RESULTS

For Q3, we reported a net loss of $29mm, or $0.10 per share

This included two unique items

First, provision included $50mm related to new data on borrower bankruptcies acquired by the company

And second, compensation included $13mm related to the departure of our former CEO

Taken together, these two items reduced our third quarter results by $0.13 per share

Net Revenues

Our third quarter net revenues were $490mm, inclusive of deleveraging-related securities gains

With these gains, revenues were up from $452mm in Q2 and down from $507mm in Q3 2011

Revenues included net interest income of $261mm, a sequential decline of $18mm, driven by a 16 basis point decline in net interest spread on a relatively flat average balance sheet

Net Interest Spread

Net interest spread fell to 228BPS for the quarter

The predominant factors, which negatively impacted spread this quarter were loan pay downs, continued pressure on reinvestment rates driven by the overall low rate environment, and an increase in cash, as
loan pay downs and securities proceeds were not fully reinvested in anticipation of deleveraging actions in Q4

- We now expect our spread for the full year 2012 will average slightly below 240BPS
  - All else equal, we continue to expect another 10BPS of compression in 2013 from 2012 full year levels

Commissions, Fees and Service Charges

- Commissions, fees and service charges, principal transactions and other revenue in Q3 were $153mm, down 1% from Q2 and down 15% from the same quarter of 2011
- Average commission per trade was $11.24, up from $10.68 last quarter as a result of favorable product mix
- Y-over-y, average commission per trade was up from $10.76
  - Revenue this quarter also included $79mm of net gains on loans and securities, inclusive of deleveraging-related gains, as we sold securities to match a reduction in certain wholesale funding obligations

Legacy Loan Portfolio

- Our legacy loan portfolio ended the quarter at $11.1B, a contraction of $616mm during the quarter, and is now down 66% from its size at the peak
- We now expect that loan run-off will average approximately $500mm per quarter for the next several quarters
- Provision for loan losses for the quarter was $141mm, up from $67mm in the prior quarter
  - This quarter’s provision included $50mm related to charge offs associated with newly identified bankruptcy filings
- We utilized third party servicers to obtain bankruptcy data specific to our loan portfolio
- And during Q3 we identified an increase in bankruptcies reported by one specific servicer
- In researching this increase, we discovered that the servicer had not been reporting all prior bankruptcy data on a timely basis
- As a result of this servicer shortfall, we implemented an enhanced procedure around all servicer reporting to corroborate the bankruptcy reporting with independent third party data
- Through this additional process, approximately $90mm of loans were identified, in which the servicers failed to report the bankruptcy filing to us

LONG-STANDING POLICY

- Our long-standing policy is to write-down loans to their collateral value when notified that a borrower is in the process of bankruptcy
- Therefore, these loans were written down during Q3, which resulted in an increase to the provision for loan losses of $50mm
  - Approximately, 90% of the loans written down as a result of this exercise are performing current loans
- We also noted these additional charge-offs were not as a result of the recently-issued regulatory guidance on the treatment of discharged bankruptcies
- Excluding the effect of the additional charge-offs, provision increased $24mm from the prior quarter to $91mm
• The sequential increase was due primarily to a decline of $16mm in put-back settlements with third party mortgage originators

Net Charge-Offs and Delinquency

• Total net charge-offs in the quarter were $158mm
• Excluding charge-offs related to the review of servicer data on bankruptcies, net charge-offs would have been $109mm, down from $121mm in the prior quarter
• Delinquency performance across the portfolio trended positively, as the 30 to 89 day delinquent category improved 6% sequentially, and 29% from a year ago
• Total at-risk delinquencies or the 30 to 179 day delinquent category improved 7% in the period and 29% from a year ago

Allowance for Loan Losses

• The total allowance for loan losses ended the quarter at $508mm, a sequential decline of $17mm
• The $508mm reserve consists of $191mm for modified loans, and $276mm for non-modified loans
  o In addition, we maintain a qualitative reserve to account for factors not directly contemplated in our loss model
• This reserve stood at $411mm, or 15% of the general reserve as of quarter end
• Our coverage remains relatively constant for non-modified loans with this quarter’s allowance covering 72% of 90 plus days past due loans
  o This compares to 67% last quarter

Modified Loans

• For modified loans, we have increased our total expected losses to 37% from 36% last quarter, and increased our allowance accordingly
• Our allowance of $191mm for modified loans plus prior write-downs continues to cover the total expected losses in this portfolio
• We modified $54mm of loans during the quarter, down from $94mm last quarter
• We continue to expect quarterly modification volumes to trend downward, as the population of delinquent loans continues to decline

CAPITAL PLAN PROGRESS

• Turning to progress with our regulators on our capital plan:
• One of our top goals is to distribute capital from the Bank to the Parent in order to pay off high cost debt
• A gating factor to accomplishing this goal is our banking regulators’ comfort with our most constraining capital ratio – Tier 1 leverage
• Accordingly, we are focused on improving this ratio through organic capital generation and by reducing the size of our balance sheet
  o With this goal in mind, we developed a comprehensive strategic and capital plan, which was submitted to our banking regulators in late June
• The plan outlined assumptions for capital levels and distributions under various operating conditions and included a holistic forecast of our business and results over the next five years
Distributing Bank Capital

- Included in this capital plan and forecast is our assumption that we will be in a place to start distributing Bank capital to the Parent by the end of 2013
- During Q3 we received initial feedback from the OCC and the Federal Reserve on the plan and we maintain an active and ongoing dialogue to ensure our execution of the plan is consistent with their expectations
- Based on their feedback, we are confident that the key elements of our strategic plan, specifically de-risking, deleveraging and the build out of our enterprise risk management function are critical
  - And assuming the successful execution of these key elements, we are confident that our targets for Bank capital levels and corresponding distributions of capital will be achievable over time

Target Leverage Ratio

- Our plan includes a target ratio for Bank Tier 1 leverage of 9.5%, intended to align with the ratios of other large banks, which currently have leverage ratios within the 9% to 10% range
  - This threshold far exceeds the current well-capitalized minimum of 5%, and we believe it is within reach given our current leverage ratio of 7.9%
  - We plan to achieve this target ratio by generating capital through earnings and by deleveraging the balance sheet
  - We expect this target leverage ratio to decline over time as we improve our credit and risk profile, earnings stability, and build out a top-tier enterprise risk management program
- We plan to reduce the current target threshold of 9.5% by 50BPS each year beginning in 2014, ultimately settling at 8%

Distributions

- And most importantly, our plan includes quarterly distributions from the Bank to the Parent of capital in excess of our target thresholds beginning by the end of 2013
- While we believe our capital plan is achievable, it is important to note that any capital distributions would be subject to the approval of our banking regulators at the time of the request, and could be influenced by factors not currently contemplated in our plan
- In addition, I would highlight that while Tier 1 leverage is currently our most constraining ratio, all required capital measures, including Tier 1 common and risk-based, would be taken into account by the regulators when considering requests for capital distributions
- We tend not to highlight these ratios, as they are currently well in excess of regulatory minimums and consistent with other dividend-paying institutions
  - Nevertheless, these ratios would also improve along with Tier 1 leverage, supported by ongoing earnings, deleveraging, and the runoff of higher risk-weighted legacy assets
- As a matter of course, we continue an active dialogue with our regulators on this plan and our assumptions, and are increasingly confident that our strategic and capital plan is the best path forward to unlocking shareholder value

Bank Leverage Ratio

- Now, while an optimal capital structure would have us eliminate holding company debt through a distribution of Bank capital to pay down the notes, the timing and size of any such distributions would be subject to the schedule, targets and successful execution of several elements of our strategic plan
• While we work toward that goal by focusing on improving our Bank’s leverage ratio, we are dually focused on refinancing high cost debt down to current market rates
  o Focusing on the $930mm of 12.5% notes due 2017, we estimate that a refinance today could reduce the coupon by more than half
  o Factor in the total costs associated with that debt, including the original issue discount and the unfavorable tax treatment, and we estimate that a refinance at 6% would benefit earnings by approximately $0.20 per share annually
• Consequently, our focus continues to be addressing this debt once it is callable in December

Debt Costs
• There is also an opportunity to further reduce our debt costs by refinancing the $243mm of ph 7.875% notes, due 2015
• If we were to refinance this full issuance alongside the 12.5% notes, at the same illustrative rate of 6%, we estimate the benefit to earnings would be an additional $0.01 of annual EPS
• Beyond improving earnings, refinancing either or both of these notes, in whole or in-part, would also reduce a use of corporate cash, while lengthening our maturity profile
  o That said, one of our key objectives with any new debt issuance would be to create a structure that allows for prepayment within a reasonable period of time without costly penalties, in anticipation of ultimately receiving Bank capital distributions

Concluding Comments
• As I highlighted last quarter, refinancing the 12.5% notes would result in a loss, which would negatively impact our parent Tier 1 leverage ratio by approximately 50BPS
• Given our goal to maintain a buffer above the fully-phased-in well capitalized minimum of 5%, our deleveraging efforts are integral to strengthening this measure in order to complete a refinance
• The strategic and capital plan that we submitted to the OCC and Fed in June includes the assumption that we refinance the 12.5% notes in the next few months, bearing in mind they are First Callable in December
• As assessment of the parent debt falls within the purview of the Fed, we maintain an active dialogue with them around our plans to complete a refinance

FINANCIAL POSITION

Corporate Cash
• Turning to our financial position:
• Corporate cash ended the quarter at $431mm, representing over two-and-a-half years of debt service coverage
• Refinancing expensive debt would obviously improve this coverage ratio
• Our risk-based capital ratios at both the Bank and Parent increased during the quarter, while our leverage ratios remained relatively flat, driven by Q3’s net loss and balance sheet growth
• While we did complete some deleveraging actions during the quarter, our liability-driven balance sheet hinges on customer cash levels
Customer Cash and Deposits

- This quarter, customer cash and deposits grew by $3.2B, principally generated by $2.2B of customer net selling activity and strong customer asset inflows during the quarter.
- Nonetheless, our Tier 1 leverage ratio at the Parent increased 10BPS to 5.8% and remained flat at the Bank at 7.9%.
- Our parent Tier 1 common ratio ended the quarter at 10.9%, and we estimate it would have increased by approximately 100BPS under the proposed Basel III guidelines.
- Reducing the size of our balance sheet remains a top commitment for us as we view this to be – along with earnings generation, the most effective path toward improving our capital ratios and ultimately distributing capital from the Bank to the Parent.

Fixed Rate Wholesale Borrowings

- We currently have several initiatives completed or underway, which total over $4B.
- In addition, we have identified other opportunities which are not yet underway.
- The actions completed during Q3 are as follows:
  - First, we terminated $520mm of our fixed rate wholesale borrowings, which were set to expire in 2014.
  - This resulted in $51mm charge on early extinguishment of debt, and was offset by securities gains, as assets were reduced to match the reduction in liabilities.

Sweep Deposits

- Second, we moved $470mm of sweep deposits off-balance sheet as a result of eliminating one of E*TRADE’s three bank charters.
- We utilize five charters which act as a waterfall for customer sweep deposits:
  - Previously, the first three were E*TRADE’s with the fourth and fifth belonging to third party institutions.
  - This quarter we completed a liquidation of the third charter and the balances were assumed by an outside institution.
  - The associated liabilities of $470mm were swept to that third party institution, and subject to regulatory approval we plan to dividend approximately $50mm in capital associated with this Charter to the Parent in Q4.

Default Cash Option

- Third, we changed the default cash option on our account application to a third party money fund as opposed to on-balance sheet cash products:
  - This is beneficial to us from a leverage perspective and to the customer from a yield perspective.
  - We have since added $300mm in customer cash to this fund.

Rate Paid on Majority of Cash Products

- Fourth, we recently reduced the rate paid on the majority of cash products to 1 basis point.
- As for the initiatives which are underway or have been completed since quarter-end:
  - First, just this week, we completed the transfer of $1.2B of sweep deposits from our second charter to a third party institution.
With this transaction, our five charter sweep product now has E*TRADE in the first position, with the other four charters all off-balance sheet.

Second, we plan to terminate or reduce wholesale borrowings by an additional $900mm in Q4.

And lastly, we are pursuing a conversion of $1B of customer payables into third party money market funds.

Deleveraging

- In addition to deleveraging, transferring these balances would also have the benefit of reducing our lowest-yielding asset segregated cash.
- In addition to the initiatives I just covered, reducing banking cash continues to be a key focus, as it is not core to our strategy or balance sheet.
- YTD, we have reduced banking deposits by $600mm.
- We continue to pursue alternatives to reduce these balances further, though we don’t have anything to announce today.
  - Including the initiatives already completed, and those in which we have a high degree of confidence, this equates to over $4B of deleveraging actions.
- We recognize that this quarter’s efforts were offset by growth in customer cash; however, customer net selling was the primary driver of this growth and we expect that to fluctuate over time.
- As a reminder our customers were net buyers of $3.9B in securities in Q2 this year.

Closing Comments

- To that end, I would note that customer net buying in October has already reached approximately $700mm, with a corresponding reduction to customer cash and thus to our balance sheet.
- With $1.3B of deleveraging initiatives completed in Q3, and over $3B targeted for Q4, we are making progress toward our goal of $5 to $10B in balance sheet reduction.

Frank J. Petrilli
Chairman & Chief Executive Officer, E*TRADE Financial Corp.

CLOSING REMARKS

- In closing, while I’m not pleased to report a net loss, I am very proud of the team and our accomplishments, particularly how our team executed this quarter against our long-term strategic plan.
- We believe there is significant value embedded in this franchise, and we are focused on unlocking it for shareholders.

Deleveraging

- Deleveraging is an integral step in getting us closer to both our long-term goal of eliminating debt, and our intermediate goal of refinancing it.
- As you have now heard, we made significant steps forward in terms of our deleveraging efforts.
- Management is fully committed to executing against cost-cutting initiatives and ushering in a philosophical change around efficiency gains and process improvement.
- We continue to grow our core franchise, even in the face of challenging market conditions characterized by declines in retail engagement and heightened macroeconomic uncertainty.

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Search for Permanent CEO

- Finally, with respect to the search for our permanent CEO, the Board is actively engaged in this process
- We’ve hired a top-notch search firm, Spencer Stuart, and we are encouraged and impressed by the quality of candidates we’ve seen thus far
  - We will obviously update you once there is something to share
- As we wrap up the year, our commitment is that we will maintain laser focus on continuing to execute on each pillar of our strategy
- Areas such as deleveraging, refinancing high cost debt and expense reductions will remain top of mind for the management team
- Additionally, we look forward to continuing the dialogue with our regulators related to our capital plan

QUESTION AND ANSWER SECTION

Alexander Blostein  
Analyst, Goldman Sachs & Co.

Q
Alright, so, a couple of things I guess. So number one, on the incremental $3B of deposits that you guys are planning to move in Q4, can you give us a sense of how much in earnings that will cost you know when the spreads that you guys can move them at. And then more importantly, I want to kind of draw a parallel from that to your desire to refi the debt at the end of the year. I think last quarter you talked about kind of maintaining a 5.5% Tier 1 leverage at the Holdco, and it feels like your core earnings is about $0.03 this quarter. So you’re growing a little bit slower, are you moving some deposits off that’s going to pressure organic capital generation, and to refi the debt you’re going to get a 50 basis point capital hit. So kind of help us understand I guess what is your willingness and ability to refi in December, seeing how you’re naturally just generating less capital organically? Long question.

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

A
So with respect to the $3B of deposits in Q4, if you look at our Q3 results hopefully you’d notice the increase in cash on the balance sheets are not customer cash but E*TRADE cash on the asset side. So we held off investing in loans and securities in anticipation of the deleveraging. So that’s one of the things that really drove spread down in the quarter. So if you take where we are today, the impact on earnings of the deleveraging in Q4 really isn’t that meaningful given it’s in cash earning, you know, fairly low rates, especially the segregated cash, which is single digit basis points, so not a huge item. With respect to refinancing the debt, I think the 5.5% target you referenced last quarter is the right number. And I would say we feel confident that with the $3B of deleveraging and our focus on refinancing in Q4, we feel confident that $3B is the right number to facilitate that refinance.

Alexander Blostein  
Analyst, Goldman Sachs & Co.

Q
Okay. And did you guys get any feedback from the Fed on whether or not you’ll be able to refi and go lower on your Tier 1 leverage, at least temporarily and they’ll be okay with that?
So we’re in active dialogue with them. So I think that’s the most I can say. We feel confident that $3B is the right number. We are in active dialogue with them on this transaction, and our strategic plan assumes that we’ll do so in the next few months. So that’s the most I can say.

**Alexander Blostein**  
*Analyst, Goldman Sachs & Co.*

Got it. And my second question was on the incremental provision this quarter. I guess you guys provided a little bit of color on I guess what caused you to investigate the issue to begin with. But I think more importantly looking out at the business and the practices that you have in place, do you need to dedicate more resources to make sure that something like this, I guess either A, doesn’t happen again? And again more importantly, how do the regulators feel about this event? I don’t know if you guys had any communication with them since.

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

Yeah, no, so we are in active dialogue with our regulators on everything of importance, so absolutely on this one as well. I think that the key thing is that we – this came up fairly recently, just over this past weekend. And the key thing for us, hopefully, if you followed in the prepared remarks is one particular servicer reported to us an increase in bankruptcies. In our own analytics and our own procedures noted the increase and we looked into it further. So I think we feel good that our existing process caught this. And I think we feel even better that we’ve added a second process to go out and get some independent data to check the entire portfolio. And the thing that I – probably the best thing that I would add to that is, when we came back ultimately concluding with the $50mm in write-down, the majority of it was from that one particular servicer, meaning there was not a systemic problem. So I think with everything I’ve just said, I think we feel good about this issue going forward.

**Alexander Blostein**  
*Analyst, Goldman Sachs & Co.*

Got it. And just the last one on this topic, so the $90mm that you identified, what’s the breakdown between home equities and first liens? And then was the home equity written down to zero?

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

So the majority was home equity and we wrote it down to collateral value. And the collateral value for home equities, especially those in a second position is pretty close to zero. So it’s a fair assumption it was written down to zero.

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

Just a question, I mean, in terms of this specific servicer, I mean historically had their bankruptcy notifications been significantly less than the other servicers you’ve used?

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

No. It was – the exact thing that occurred is our analytics of the reporting noted a spike. So it – so that – so it really jumped out. There wasn’t anything abnormal in the past.
Joel M. Jeffrey
Analyst, Keefe, Bruyette & Woods, Inc.

Okay. And exactly how many servicers do you guys use?

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

I don’t know, in the roughly 50, less than 50 range.

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

Hi, guys. Can you just give a little color on the $900mm of wholesale reduction that you outlined for fourth quarter? What would be the hit against that?

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

Sure. So specifically we’re targeting fixed rate Federal Home Loan Bank advances. So similar to what we did, the $500mm that we did in Q3, which had $51mm prepayment penalty associated with it. So, I don’t have the exact number of what the prepayment cost would be, but you would likely see a similar dynamic in Q4 in that we would sell securities to facilitate the reduction of those wholesale borrowings. So, no precise numbers but the same type of transaction.

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

Got you. And then in your discussions with the regulator, I know the special servicer that you found this one issue with, has that come up? And do you have any concern that this is something that maybe should’ve been caught, and they will kind of look negatively on that?

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

Well any time we note an issue, we always would feel like or hope we would have caught it before. But I will tell you we fully briefed the regulators on this particular issue. And I would just reiterate that we’re pleased that our own process, that our own analytics noted the issue. We looked into it further and then implemented an additional process above and beyond to go out to a third party to validate our entire portfolio. So while we’re not pleased that we have this $50mm charge, we’re pleased how we identified it and how we reacted to it.

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

I guess my first question is, Matt, you alluded to this weekend, this came to light this weekend. Can you expand on that, what the process was here on identifying this?

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

Yeah sure, Rich. So our analytics noted this – the increase in bankruptcies in this particular servicer in the last month reporting. So it really came up recently. And based on those analytics we decided to go add this additional procedure. So it was something that came up fairly late in the process. So we worked throughout the weekend to make sure that we were comfortable with the data we had. And it ultimately led to the identification of the $90mm
and the $50mm write-down that we've discussed. So there's really no more to it than that. Is there anything in particular you were – that I missed there?

Richard H. Repetto  
Analyst, Sandler O'Neil & Partners LP

No, I was just – just wanted to make sure that when you said this weekend, I was trying to clarify the timing, because we were all looking at this thing last week with JPMorgan and their report. But anyway, next question.

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

It was not – it was a different issue. It was not connected to what – the change that they had.

Richard H. Repetto  
Analyst, Sandler O'Neil & Partners LP

Understood. Understood. And then, Matt, on the NIM, we just did rough calculations and I understand that the cash, that you have un-invested cash, or cash sitting on the balance sheet un-invested. But you're actually I guess with your guidance of NIM just under 240 and then 10BPS down from that, you're expecting a NIM rebound given even in this current environment, you're expecting the NIM to rebound given your actions I guess?

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

Yeah and specifically related to the cash that we have on balance sheet ahead of deleveraging. So if you look at that cash, between segregated cash it earned 7BPS and our regular cash it earned 21BPS during the quarter. So when we deleverage through that, you're really improving the spread in Q4, everything else being equal. The other thing I would highlight, for the 10 basis point, incremental basis points down in 2013, the same way during 2012, we've ratcheted down during the year. We'd also ratchet down during 2013. So, we would likely enter 2014 probably down 15BPS vs. 2012 if that helps.

Richard H. Repetto  
Analyst, Sandler O'Neil & Partners LP

Understood, thanks. And the last thing, for Frank, Mr. Efficiency here leaving his mark on the company I guess. The $70mm in cost saves up from the initial $50mm and you targeted $100mm. Can you give us a little bit more, what you call it, specificity on where are these coming from? Is it headcount? Again, sort of same questions that we asked last time but you’ve had another quarter to look at this and I know this in your past has been your area of focus. So, where’s E*TRADE – how’s E*TRADE going to come up with the $70mm?

Frank J. Petrilli  
Chairman & Chief Executive Officer, E*TRADE Financial Corp.

So, Rich, thank you for not ignoring me but I’m going to pass it to Matt, that’s the numbers guy.

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

Alright, Rich, so I would speak to our target of $100mm. So we’ve identified $70mm but we’re focused on getting to $100mm. And I would start off first, we’ve assumed that $100mm about $20mm is for marketing, and then for the rest of the $80mm, I think the best way to think about it is just looking at our expense base overall. There are certain things from a cost reduction program perspective that you really can’t impact. Things like FDIC expenses, clearing and servicing, depreciation and amortization. Those are the things you can’t really impact.
What we can impact is comp and ben, professional services and contractors and the like. So, really costs – really connected to people. So you know people that aren’t necessarily employees of the company but all the people costs in our financials. So that’s where we’d be focused on.

Chris Harris  
Analyst, Wells Fargo Securities LLC  
Q

So the 9.5% Tier 1 leverage target for the end of 2013 for the Bank, wondering if you guys can help us out a little bit with how you plan to get there, how much do you think is going to be driven by the deleveraging, how much from potential earnings and utilization of the DTA? Just kind of maybe you can break that down for us, would be helpful.

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

So those are the buckets. I don’t have precision on all those items, but I think deleveraging is key. That’s where we had the $5B to $10B target of deleveraging actions that we’re focused on. And then the other bucket is earnings and earnings that utilize the DTA. So those are really the two primary buckets that we’re focused on to get there.

Chris Harris  
Analyst, Wells Fargo Securities LLC  
Q

So the $5B to $10B that you’re talking about with the deleveraging, is that really just assuming today’s deposit levels? So I guess what I’m wondering is if your cash continues to grow, as you guys incrementally add more assets, could that number potentially go much higher? Because I mean this past year you – what did you have? $20B or so of asset growth given net new assets and market gains. And it just seems like you’ll ultimately have to delever a lot more assuming some of that net new assets is in cash.

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

Yeah. So customer flows is really the X factor when you look at a projection for our balance sheet. So the way I think about it is if we had customer cash inflows that increase the size of the balance sheet, from a deleveraging initiative perspective we would need to focus closer to the $10B because the net balance sheet increase would be – or net balance sheet decrease would be a little bit less than that. If customer cash doesn’t grow and flows out, then we would focus from a deleveraging action perspective closer to the $5B. So I don’t have a customer cash forecast for you, but that’s kind of the dynamic that would be at play that would move us along in that range.

Chris Harris  
Analyst, Wells Fargo Securities LLC  
Q

Okay. And then just last question from me, just following up on the net interest spread here. I was under the assumption that the deleveraging would potentially have a positive impact on the spread given you’re kind of rolling off lower yielding assets. And it seems like it’s in line with your prior net interest rate guidance. So wondering what changed with the mechanics? Why wouldn’t we see a slight improvement in the spread guidance vs. where we were before, given the deleveraging?

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

Yeah. So the interest – before being last quarter – the interest rate environment continues to be difficult, right? Each time we say on a call the interest rate environment’s difficult, the next call gets even worse. And QE3 didn’t help much towards the end of this quarter. So I think the environment is pressuring spread. Deleveraging, the
incremental spread we earn to grow the balance sheet is absolutely low. So to your point, agree, as we delever the spread that’s coming off isn’t incredibly high, but I think the environment is a big driver and the environment’s just incredibly difficult.

Chris J. Allen  
**Analyst, Evercore Partners (Securities)**

Just looking forward to next quarter and you guys pointed at kind of the high cash balances on the balance sheet and that’s kind of going to be the bucket you guys look at. I was just wondering like, looking historically, it is high right now relative to where it’s been historically. But like, what’s kind of the minimum level of cash balances we should kind of expect there, i.e., what else we would need to do above that to drive the debt pay down?

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

Well, we’ve got corporate cash just north of $400mm, right? So that’s not something that’s been fluctuating too much. Within the Bank itself we always want to keep a certain amount of cash for liquidity purposes, call it in the $750mm to $1B range. And then you’ve got segregated cash in the broker dealers which is difficult to predict, right? It’s a function of our margin balances as well as cash in the broker. So that one’s going to be a little bit of an X-factor. But that’s how I would think of cash, in those three buckets.

Chris J. Allen  
**Analyst, Evercore Partners (Securities)**

Got it. Okay. And then to – obviously you guys are going to have to affect some gains moving forward to offset some of the capital hedge. Within the securities bucket are there lower yielding assets, say in the 100 basis point to 125 basis point range that you’ll be able to harvest those gains from?

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

Well I think the – the other side of the interest rate environment comment is as we build our portfolio – and the securities portfolio is really the only place where we buy securities and sell securities, almost everything else on the balance sheet is either a function of customers or a loan portfolio that’s paying down. Given those interest rate movements, the vast majority of things are going to be at a gain, right. So just any selling you’re typically going to have gain on sales and we’ve seen that for quite some time. So I would expect to see that at a minimum next quarter and then depending on where the environment goes after that, the environment will tell. But next quarter I would certainly expect it.

Chris J. Allen  
**Analyst, Evercore Partners (Securities)**

I guess another way of asking it is, putting the environment side, this stuff that you’re looking at harvesting, would that negatively or positively impact the securities yield as we kind of see in this quarter?

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

Sure. I would say the environment where we’re reinvesting is the primary driver, but the economics of selling a security at a gain means it’s yielding something higher than it current – than where you could reinvest today. So it would certainly have an impact, but I think the overall environment’s probably – and the changes in the interest rate environment, are going to be the primary driver.
Chris J. Allen  
Analyst, Evercore Partners (Securities)

Got it. Okay. And then just a follow-up on Rich’s question on the expense saves. Should we be thinking about the expense saves above whatever we’re building in, in terms of lower FDIC and clearing and services fees, as the portfolio comes down?

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

Yes. So the $100mm are specific actions we’re taking or plan to take. It’s not things like the FDIC rates come down or the servicing cost of the portfolio come down. It’s in addition to that.

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

Can you talk a little bit about the reinvestment yields, Matt, that you are assuming in your guidance for NIM in 2013? What type of securities would you be investing in, in terms of a duration profile? And also, what kind of deals are you expecting in that guidance?

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

Right. So our reinvestment rates have certainly been impacted by the environment. So last quarter, we talked about reinvestment rates in the 125 basis point to 150 basis point range. Where we are in the environment today, it’s closer to 100BPS. So you certainly see some compression there. As far as where we invest it, there’s no change to the investment strategy, it’s agency-backed or government-backed securities, mortgage-backed securities. So the same strategy that we’ve had for quite some time.

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

And is the 100 basis point also your assumption in the 2013 guidance for NIM?

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

So, the comment on spread is, given the environment that we’re in today, what would happen to the balance sheet going forward. So it’s not a comment on where the interest rate environment would be in 2013.

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

Okay. Good to know, that’s perfect. Okay. And then just again on the cost save side of it, do you have any revenue implications from there or are you budgeting any revenue implications, or is this purely a cost reduction that doesn’t really have any revenue associated with it?

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

So we are planning for revenue impact of this, but I think the – keep in mind the philosophy we have in this. We are focused on cutting lower returning initiatives, making sure we prioritize all the things that are important and are key to our strategic plan. So ultimately, the things that we stop doing or the marketing dollars that we stop
spending on the margin would not be impactful from a revenue perspective. But we’re certainly planning for some level of impact.

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

Okay. Can you frame that level of impact at all or is it too early to tell?

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

About relatively minor.

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

Relatively minor, okay. Okay. And then – and the ramp on that, on the cost save program, is it back-end loaded towards the end of 2013 or do you expect to be getting a lot of those incremental saves over the next couple of quarters or so?

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

So our objective is to have it all in place by the end of 2013 but the majority by mid-2013. So by the time we are in Q3 2013, we would hope to be in a place where the majority of them are in the run rate numbers for that quarter. But we’ll keep you updated along the way on how we’re doing.

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

Okay. And then risk management costs that Frank talked about earlier, the $10mm additional that is over and above this $100mm, is that correct?

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

Right. So it’d be a net $90mm.

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

Net $90mm, okay. And then, just lastly, you said – I think you said – did you say trading in October so far was down 13% vs. September?

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

We did.

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

Real close, back on the expenses, the $70mm that you’ve already identified, has any of that been realized yet or already?
Matthew J. Audette  
Chief Financial Officer & Executive Vice President, E*TRADE Financial Corp.

A relatively minor amount. Specific to Q3 results, the results are relatively minor amounts in there.

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

Okay. And how much of that do you think you can start to realize in Q4?

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

So it’s really the same commentary with Brian on the $100mm. That we want to get the majority of it in place by the time we are – for Q3 2013 numbers. Right. So, all of it by the end of the year, but the majority into the run rate for Q3 2013.

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

Okay. And then, the $79mm gain on sale, how much of that is related to the decline in the wholesale funding?

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

So I think the best way to think about gain on sale this quarter is as if that loss on early retirement of debt which is down at the bottom of the P&L was reported back up on the gain on sale line, right? So when you net those two things together, you’re in the mid to upper $20s million, which is pretty consistent with what you’ve seen in the recent quarters for us. They just get reported in a different place. So I just look at them together.

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

Okay. So the full $79mm would be related to wholesale funding?

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

No. I would just look at the two lines together meaning the $79mm minus the $51mm down at the bottom, right?

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

Okay. Oh, okay.

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

So you’re in the $28mm range, which is consistent with what we’ve seen in recent quarters.

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

Got it. And then, Rich touched on it but the – some of the other banks were reporting the provisions. Basically if a loan is under water or negative equity, if the primary loan is negative equity, then the home equity loan needs to
be written down to collateral, and you said that that wasn’t a factor in today’s results. Have you done any analysis around that? I guess, A, why wasn’t that – I thought that was kind of implemented in Q3. So, why wasn’t that included? And B, if you’ve done any analysis in terms of how much of your loan portfolio would need to be marked down to collateral, if you did adhere to that new regulation?

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

Yeah. So I think – so, the change in regulatory guidance, I think, was a little bit different than that. So it’s specific to a certain scenario of bankruptcies where a borrower files a Chapter 7 bankruptcy, the bankruptcy is discharged, and then the borrower does not reaffirm the debt. And there’s regulatory guidance on that, that came out that said, in that scenario, even if the loan is current, you have to charge it off to collateral value. Our policy on charging off bankruptcies is when we get notice of the bankruptcy, we charge it off. We don’t have a scenario where we don’t charge it off and it looks clear from all the banks that were reporting this quarter, that updated their policies that they did. So I think a long way of saying our policies were much more conservative and that’s why that guidance wouldn’t have impacted us. It was more about that our servicers, and this one particular servicer mostly, had simply not reported the bankruptcy to us and that was the core issue.

Alexander Blostein  
Analyst, Goldman Sachs & Co.

Sorry guys, just wanted to follow-up on one more. So I’m a little bit confused around the cash balances question that somebody else answered – asked earlier. So if I look at the balance sheet, $2.8B, you’re clearly not going to take it down to zero. You’re moving $3B of deposits off-balance sheet and you’re saying, kind of like, all right, $3B is – we have enough in cash, so it’s not really earning us anything anyway. So, can you help me understand that? So it does seem like you will have to sell some securities, I guess, to move some of that $3B out? And under that scenario, obviously there would be some impact on NII, so I’m sure I’m missing something. Would you mind just kind of fleshing those out?

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

Yeah. No, I don’t think you’re missing anything. I don’t think the deleveraging in Q4 would be 100% funded with the cash. Just if you look vs. last quarter, it grew in a meaningful way, so it’s probably – I’d call it the majority of it will be funded by that. But we would absolutely or likely have to sell securities to facilitate this. But then the other X-factor will be what customer cash activity is in Q4. If a bunch of cash comes in, cash goes up, that may facilitate the deleveraging. If the trend we’ve seen in October continues with $700mm of net buying, we would have to sell a lot more securities to facilitate the deleveraging. So, it just all depends on the dynamics of the balance sheet in Q4.

Alexander Blostein  
Analyst, Goldman Sachs & Co.

Got it. And then if you were to kind of stop the clock today, how much in net interest income would go away given how much in securities you would have to sell?

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

Yes. I don’t have that level of precision, Alex. I mean the balance sheet moves – it’s pretty dynamic. So, I think we’ll have to – the things that I walked through are the best info I could give you and we’ll have to see how we execute in Q4.
Chris Harris  
Analyst, Wells Fargo Securities LLC  
Real quick on the provision expense; excluding the one-time item you mentioned that the majority of the sequential increase was related to zero putbacks, settlements. Should we expect zero putbacks on a go-forward basis? So in other words, will your provision expense potentially be higher over the next couple of quarters than what we’ve seen in H1?

Matthew J. Audette  
Chief Financial Officer & Executive Vice President, E*TRADE Financial Corp.  
So I think generally putbacks should be declining. Our total program to date, or life to date of focusing on this, we’re just under $400mm of putbacks given this – the age of our loans. We’ve gone through the vast majority of them. So, I would say it’s more behind us than ahead of us. But it’s not – I wouldn’t say it would be zero in the future. I think when we talk about provision on a going-forward basis, we repeat over and over again that we think the long-term trend of provision will decline, especially as the delinquent – delinquencies decline. But you could always see variability in any given quarter. And I think the last two quarters are a great example of that if you take out the $50mm, you saw $67mm last quarter, which I’d say is on the low end. And then you see $91mm on the quarter – for the quarter – this quarter. So that’s, I think that’s just a good example about how it can be volatile. But over the long term, we still expect it to continue to decline.

Chris Harris  
Analyst, Wells Fargo Securities LLC  
Okay, Matt. And then assuming you guys get the springing refi done – springing that refi done prior to the end of the year, will there be some tax benefits to that? And if there are, maybe can you guide us through the pro forma tax rate you expect?

Matthew J. Audette  
Chief Financial Officer & Executive Vice President, E*TRADE Financial Corp.  
Yeah. So a pro forma tax rate would be tough. I think the estimated loss in the refinancing dollars would be north of $250mm, which would not be entirely tax deductible. So, I don’t have a precise number for you other than the total amount wouldn’t be tax deductible. As far as an effective tax rate going forward, I think when you get away from being close to breakeven or just under breakeven that creates a little bit of volatility with the rate. Our long term expected rate right now is in the 45% range because of about a third of the spring lien notes is not deductible. Once we refinanced, especially if we refinance it at that prevailing rate today, net interest would be deductible. So I was thinking about the long-term rate after that, closer to the statutory rates, with all the states we’re in, of around 40%, is a good way to think about it.