MANAGEMENT DISCUSSION SECTION

Operator: Welcome to E*TRADE Financial Corporation's Third quarter 2005 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode. Following the presentation, the floor will be opened for questions. I've been asked to begin this call with the following Safe Harbor statements. During this conference call, the Company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. E*TRADE Financial cautions you that certain factors, including risks and uncertainties referred to in the 10-Ks, 10-Qs, and other reports it periodically files with the Securities and Exchange Commission could cause the Company's actual results to differ materially from those indicated by its projections or forward-looking statements.

In this call E*TRADE Financial will discuss some non-GAAP measures in talking about its performance, and you could find the reconciliation of those measures to GAAP in the Company's press release, which can be found on its website at www.etrade.com. This call is being recorded. A replay of this call will be available by telephone beginning approximately 7 o' clock PM Eastern Time today, through 11 o' clock PM Eastern Time on Wednesday, November 2. This call is also being webcast at www.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

I'll now turn the call over to Mitchell Caplan, Chief Executive Officer of E*TRADE Financial Corporation, who is joined by Jarrett Lilien, President, and Chief Operating Officer; and Robert Simmons, Chief Financial Officer. Mr. Caplan, please begin.

Mitchell H. Caplan, Chief Executive Officer

Good afternoon, and thanks everybody for joining us today. The third quarter was as we like to say around here truly extraordinary. In the last 90 days, we delivered superior results. From a financial perspective, we generated record net revenue, record customer assets, and the second highest operating margin in our history. From an operational perspective, we executed on our core initiatives to deliver these financial results, while we evaluated and announced two significant consolidation transactions, closed on one, and successfully raised $450 million in senior notes to finance this acquisition.

More specifically, with respect to how we executed on our core initiatives, we continued to broaden and deepen customer relationships. In doing this we created growth across each of the key drivers of our model, including assets, cash, borrowings, and transactions. We remain committed to delivering a compelling and differentiated value proposition to our customers. Through this commitment we expanded the engagement of our existing customer base, leveraged over 200,000 new customer relationships, growing total client assets to $106 billion. These growth trends all point to our connection with the retail customer and the continued adoption of E*TRADE Complete.

As we continue to create greater value for customers, we strengthen the franchise and generate greater value for shareholders. In the third quarter, with respect to our superior financial performance, we delivered $0.28 in earnings per share on total net revenue of $423 million. We generated these strong results through a combination of top line growth, prudent expense management, and further operational efficiencies, all realized through the continued integration within, and between our retail and institutional segments. Our model is delivering.

Our third quarter results represent 20% year-over-year growth in revenue to a quarterly record, with 35% growth in segment income. These results were achieved despite our expensing of employee stock options for the first time under FAS 123(R). Excluding the impact of option expensing, the model delivered 42% year-over-year growth in segment income, and a record operating margin at 37.4%.

As we continue to deliver strong and consistent results through our integrated model standalone, we seek opportunities that can accelerate value creation. We have long said that excess capacity in the industry represents an opportunity to create value through nearly any aggregation of trading volume. However, when we consider various consolidation opportunities, we focus on transactions that offer greater strategic value to us, to assets and credit relationships. Both Harrisdirect and BrownCo represent ideal fits with our strategic vision. Both companies bring trades, which add scale to our transaction business, and carry a high incremental margin; but of even more interest to us, they each bring a high quality customer base, with attractive asset and borrowing relationships, characteristics consistent with our best customers today.

So, as we step back and look at what we expect to achieve from a growth perspective through these two transactions, it's impressive. On a pro forma basis, Harrisdirect and Brown add over 600,000 new accounts and increase total client assets by 63%, with cash balances up 45%, margin debt balances rise 170%, and retail DART volumes increase 52%. In addition, we expect to unlock approximately $340 million in combined annual pre-tax synergies. These synergies will be realized with only a modest increase in retail commissions as a percent of revenue moving to about 25% post closings, from 20% in the third quarter. As we continue to execute on our vision of creating an integrated financial services company, we will ultimately move toward a place where we can assess, evaluate, and manage the company from an enterprise-wide perspective.

Two years ago, we took our first major step toward integration with the launch of the Sweep Deposit Account. This product allowed us to better leverage our bank and brokerage models by realizing the synergies of these previously competitive businesses. We have since built on the success of the sweep account by realigning the structure of the Company to a more customer centric perspective around retail and institutional segments. As we begin now to integrate Harrisdirect and eventually Brown upon closing of that transaction, we will continue to focus on pulling together our operations technology and service around our retail customer relationships. Through the integration of customer cash in the form of deposits, certificates of deposits, checking, money market funds, and sweep; and credit in the form of mortgage, HELOCs [Home Equity Loans], margin, and to a lesser extent credit cards. We are moving to a place where we get started to think about assets and liabilities and the spread between them on a total enterprise basis. We believe this holistic view of the Company is the ultimate structure that will help drive the best management decisions and illustrate the value of the franchise. Utilizing the strengths of our institutional segment to leverage growth in our retail relationships, we could optimize the model and deliver greater value for customers and shareholders. I'm extremely pleased with the record results that we have generated in many areas of our business, and the continued accomplishments of our team. We delivered these strong operating and financial results, while remaining focused on enhancing the strength of the franchise for the long term. I'd like to turn the call over to Jarrett now to talk about more of the specifics of the quarter.

R. Jarrett Lilien, President, and Chief Operating Officer

Thanks, Mitch. Our continued focus on expanding existing customer relationships while attracting new high-quality customers resulted in core growth in our business in the third quarter. At the highest level revenue per customer, segment income per customer, and the number of products per customer continued their upward trajectory on both the quarter-over-quarter and year-over-year basis. I'd like to spend a few minutes on our segment results to discuss how we are achieving the success.

In retail, we continue to benefit from our focus on account quality and efforts to deepen engagement across our customer base. In the third quarter, assets per customer increased 25% over the year ago period, including a 10% increase in cash per customer. This increase was driven in part by our initiative to market and focus on assets and cash management solutions, and rewarding customers with greater value for holding larger asset balances at E*TRADE Financial. As we bring cash in to our retail customers, we are able to further leverage the value of that cash in our institutional segment through our balance sheet integration strategy.

Looking across our entire suite of cash products, total customer cash in the system increased by $800 million in the quarter to a record $19.5 billion. When we talk about total cash in the system, this includes cash at the broker-dealer, as well as total bank deposits including CDs, transaction accounts, and the sweep account. In the quarter, we saw organic growth across all of these cash products. Specifically, we saw organic growth of over $300 million in sweep, $200 million in CDs, and 200 million in transaction accounts.

We also continue to make progress cash on moving cash from the broker-dealer into the bank's balance sheet by sweeping 700 million of previously unswept cash from the broker-dealer. This combined with the organic growths in CDs, transaction accounts, and sweep increased cash on the bank's balance sheet, where it all carries the greatest value to our model by $1.4 billion. Overall, we saw growth in customer cash balances even as our customers participated and invested in a strong equity market.

Our focus on the combination of value pricing, functionality, and service is delivering growth in our retail customer base. In the third quarter, we generated nearly 49,000 net new retail accounts, nearly double the growth we saw in the second quarter, and a significant reversal from the net account attrition we experienced a year ago. This of course does not include any impact from Harrisdirect, which didn't get closed until after the quarter end.

In addition to the growth in customer assets that I already discussed, we also saw growth in margin consistent with increases we experienced in trading activity. Average margin debt increased 12% year-over-year, and 4% sequentially. Retail DART volumes also increased, rising 50% year-over-year and 16% sequentially, corresponding to the movement out of cash, and into investments by some customers during the quarter as previously described.

In professional, DART volume declined 9% year-over-year, and 8% sequentially. This decline is the result of seasonal volatility, exaggerated by our exiting of the prop business last quarter, and the effect that had on certain professional customers. As a result of a favorable mix shift towards retail volumes versus professional volumes in the quarter, average commission per trade increased to $10.78 from $10.09.

Moving over to the institutional segment. We continue to realize the benefits from the connection with our retail customers. Growth in retail customer cash, for example, is a critical component of our balance sheet management process. As we grow customer cash and integrate that cash with the bank's balance sheet, we benefit in two ways. We are able to use this cash to replace wholesale funding sources such as repos and FHLB advances which reduces our aggregate cost of liabilities and/or we can use the additional cash to grow the asset side of the balance sheet as we connect with our customers through lending products such as mortgages and HELOCs [Home Equity Loans]. We do this while always adhering to our strict discipline around credit and interest rate risk.

In the third quarter, the benefit of this relationship between our retail and institutional segments translated into a further spread widening on the bank's balance sheet to 223 basis points, despite a challenging yield curve environment. In addition to delivering further spread widening, we were also able to grow the bank's balance sheet to $30 billion in assets. Loans as a percent of total assets also increased to 59% from 45% a year ago.

Our institutional segment also stands to benefit as we connect to our retail customers around credit relationships such as margin lending. As we continue to focus on attracting and retaining high-quality customers, we expect to generate growth in margin debt balances. Clearly, the additional of

Brown and Harris will accelerate this initiative. In the context of the broker-dealer as it stands today, larger margin debt balances provide an attractive source of collateralized, recurring interest-related income. Yet the value of margin debt could be enhanced as we ultimately move towards full balance sheet integration.

Before turning the call over to Rob for more of the financial details for the quarter, I'd like to comment on the integration of Harrisdirect and Brown. As you know, we closed on the Harrisdirect transaction on October 6, nearly a full quarter ahead of our original schedule. We are very excited to have started on this integration. We have a dedicated team overseeing this process from start to finish. This team included many of the people who were involved with our own back-office conversion to ADP last Fall, which was a significantly larger undertaking.

Given their background and experience, we expect a smooth conversion for our new customers, and our goal is to improve the experience for existing customers by leveraging the best parts of the acquired platforms. The early closing of Harris allows us to complete several of the largest integration steps before year-end. With respect to Brown, we remain on track to close the transaction by year-end as we projected, pending regulatory approval. The early closing of Harris and the anticipated closing for Brown mean that we will be able to focus on one deal at a time, reducing the overall execution risk of these two projects, and increasing our confidence in a clean and smooth conversion process for both sets of new customers. With that, I'll turn it over to Rob for the financial details.

Robert J. Simmons, Chief Financial Officer

Thanks, Jarrett. As Mitch mentioned earlier, we are very pleased with the performance of the Company in the third quarter. As we continue to execute our strategic plan, including both organic growth initiatives and consolidation opportunities, we successfully delivered top line growth with increasing profitability. Total net revenue in the third quarter increased 26% year-over-year, and 8% sequentially. This growth continues to illustrate the benefits of our direct and indirect leverage to retail customer relationship.

Through increases in customer cash and borrowings, we were able to further reduce our funding costs at the bank, deepen our credit relationships, and widen our net interest spread. At the same time, retail commission revenue grew by 35% year-over-year, and 16% sequentially, while holding at about 20% of total net revenue. As we continue to grow the bank balance sheet and create a greater leverage with our retail customers through borrowing relationships and cash, we expect net interest income to continue to be a growing contributor of high-quality recurring earning.

In the quarter, net interest income after provision grew 32% year-over-year, and 5% sequentially to $204 million or 48% of total revenue. Turning to operating expenses, we continued to demonstrate cost discipline and realize operational efficiencies. Third quarter segment expenses totaled $272 million, up $19.8 million in absolute terms, but down as a percentage of revenue compared to both the year ago and prior quarter periods.

Two factors contributed to the 19.8 million sequential increase in total expenses. First, compensation and benefits increased $17 million sequentially to $103 million. Of the $17 million increase, approximately 8 million was related to our adoption of FAS 123(R) and 9 million was related to volume and performance-based compensation. Second, commission, clearance, and floor brokerage expenses increased $2.2 million sequentially, directly related to the 16% increase in retail DART volumes. Including the effect of these two factors, we delivered year-over-year and sequential operating margin expansion and the second highest segment income ever, second only to that of the first quarter earlier this year.

To assess the progress we have made over the past year, it's helpful to evaluate our performance year-to-date. Total net revenue for the nine months ended September 30, 2005, increased 12% over the year ago period, consistent with our stated goal of 10 to 15% top line growth. At the same time, total segment expenses increased just 8%, including the adoption of FAS 123(R) this past quarter. So as revenue growth outpaced expenses, we widened our operating margin by 250 basis points to 35.7%, and delivered 21% growth in segment income. Particularly interesting is that these results were delivered despite flat commission revenue. We believe these results further demonstrate the enhanced operating leverage of our model, while highlighting our reduced dependence on trading related revenue.

In light of the progress we have made and the strength of our year-to-date results, we are raising and tightening our 2005 earnings guidance today to a new EPS range of between $1.04 and $1.09 from our previously expected range of between $0.96 to $1.06. Taking into account the $0.79 in EPS that we have reported year-to-date, our raised guidance implies a range of between $0.25 to $0.30 for the fourth quarter. This revised guidance considers the impact of higher interest expense, restructuring, and deal-related costs associated with the acquisition of Harrisdirect, which we will offset with approximately $0.03 of the expected $0.08 gain from the sale of E*TRADE Consumer Finance. To preserve comparability with prior guidance, we are excluding the remaining $0.05 of the expected Q4 gain for purposes of this guidance. When we report our actual results for the fourth quarter in January, the bottom line number will include this additional $0.05, resulting in an expected headline number of $1.09 to $1.14.

Our fourth quarter guidance also includes an estimated 6 to $8 million increase in marketing spend in accordance with seasonal opportunities, and the integration of Harrisdirect and Brown. We are also including an assumed decline in average commission to approximately $10 per trade, down from $10.78 this past quarter, as a result of mix shift in our DART volumes, as well as our simplified pricing structure.

Turning to the Harrisdirect acquisition, we are pleased by the fact that we were able to close a full quarter ahead of schedule. That said, we do not expect this to have any material contribution to operating income in the fourth quarter. The early closing does put us on track to be ahead of our initial integration schedule as we head into 2006, as Jarrett discussed, moving the timing of full synergy realization to approximately mid year versus the September quarter, as originally estimated. As for our 2006 outlook, we plan to establish guidance in December as we have in the past.

With this, I'd like to conclude by saying that we remain very pleased with the continued performance of the model, and the fact that we are well on track to deliver a third year of record profits. We are also excited about the opportunity to accelerate our cash flow generation as we integrate Harrisdirect and Brown, and we will remain disciplined in our approach to deploying that cash flow. Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question comes from Mike Vinciquerra with Raymond James.

<Q – Michael Vinciquerra>: Good afternoon, guys.

<A – Mitchell Caplan>: Hey, Mike.

<Q – Michael Vinciquerra>: A couple of questions, mostly on, kind of the modeling side, looking for a lot of things kind of changing here over the next 12 months. But first of all, the big jump in bank interest earning assets, about 4% sequentially, should we assume that that is a pace that you guys want to maintain for the foreseeable future? Is that kind of an extraordinary boost for the one quarter?

<A – Mitchell Caplan>: There are a couple things that are happening. One is, one of the things you'll note is that quarter-over-quarter we had about a 50%, a little bit more than a 50% origination -- increase in originations from our retail customer base. And, we increased what we kept on balance sheet by about 170% quarter-over-quarter. So, it was a strong quarter in which we were able to grow the balance sheet around mortgage loans, HELOCs, you can see it, as we continued to connect with these retail customers through Complete and otherwise. One of the things I think we've talked about in the past, to answer your question specifically is that, the earnings alone at the "Bank Legal Entity" can generate 10% annualized growth without contributing any capital down from the parent. So, without saying any more, I think what we'll do is as we give guidance in December for next year, we will be much more specific about – obviously the top line guidance, and where it's coming from and the implied growth in the balance sheet as a result of that. But clearly we are in a place where our goal is to try to grow the loans as a percentage of your total assets. As we said here it's at 59. We'd like to see that between 70% to 80%, but a lot of that would be the result of just declining your securities portfolio.

<Q – Michael Vinciquerra>: Okay, great. Thank you. And then two other things, maybe for Rob. The FAS 123 impact for 2006, have you guys put together an estimate what that will be? I guess, we had 8 million in the quarter?

<A – Robert Simmons>: No. We'll talk about 2006 in December when we come out with our regular guidance, Mike. But this quarter, the component that was purely options related was about $7.1 million this quarter. So that's kind of a reasonable run rate for now.

<Q – Michael Vinciquerra>: Okay. And then just finally, just to clarify on the marketing. Rob, I guess we had 21 million this quarter. You said that you expect it to be up 6 to 8 million for Q4, implies something in the high 20s, which is still pretty much in line with where you were in Q2. Is that -- am I looking at that the right way, and then next year, we're talking about something similar in terms of your annual marketing budget?

<A – Robert Simmons>: A couple things, Mike. Yes, you're absolutely looking at it right in terms of Q4. With respect to the next quarter or the quarter that we're currently in, we do intend to spend more. It does look a little bit more like Q2 when you're out of the -- what traditionally had been a seasonably slow summer. And so there will be a penny of additional increased marketing expenses in Q4. Again, with respect to 2006, we'll deal with all of that when we give guidance in December for next year, including the details around marketing.

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

<A – Robert Simmons>: Absolutely.

Operator: Your next question comes from Richard Herr with KBW.

<Q – Richard Herr>: Hi, guys, how are you?

<A – Mitchell Caplan>: Hi, Rich.

<Q – Richard Herr>: Just a quick question on the sort of the gain on sale, obviously a minor detail. But a lot of what we may hear from other banks is, you know, gain on sale margins haven't been very good. And it looks like yours held up -- your gain on sales revenues held up pretty well this quarter. Can you just maybe just discuss and give a little color on how that was, and if you expect that to continue?

<A – Mitchell Caplan>: Absolutely, happy to do it. So I think if you remember last quarter, you actually saw a gain on sale pretty consistent on the originated -- gain on sale as the result of the originated loans. What you saw last quarter down was gain on sale of securities and otherwise, really the institutional part of the gain on sale business. And I think what we said was we expected to see gain on sale associated with the mortgage volume being pretty consistent going forward. Again, you have to remember it's down probably 60% from its high. So we were in a position where close to a year ago we made the decision that regardless of where interest rates were going, we wanted to reposition the mortgage company from being an originator and reseller to try to originate and move in a direction of putting stuff on balance sheet. So as a result, overall origination volumes would be down, and ultimately what we packaged and sold into the secondary market would be down. So that's why I think you're seeing us to be much more consistent versus other people who are being much more impacted right now by the declines in the marketplace. Secondly, with respect to the institutional gain, last quarter it was pretty flat. I think you've seen it as high as 20 million. And I think we guided last quarter and said we would expect to see it anywhere in the range of 5 to 10 on a quarterly basis. And I'd say, we're pretty comfortable with that range now and going forward.

<Q – Richard Herr>: Okay, that's helpful. And just looking at the corporate interest expense, I'm assuming that the jump there really had to do with the carry of – for Harris?

<A – Mitchell Caplan>: You got it. $450 million carried for three weeks.

<Q – Richard Herr>: For three weeks. Okay, so I guess more – looking out at a full quarter number, maybe it's a 3 million or 4 million additional expense there?

<A – Mitchell Caplan>: That's 8 million bucks a quarter.

<Q – Richard Herr>: And just lastly, one last question. On the average rate per trade – I apologize if you've covered it in the prepared remarks. But, you know, it continues to stay strong at 10.89. I know you're guiding forward at $10. I think the original guidance we had gotten as late as June was 9.50 to 9.70. I mean any reason there for the strength?

<A – Mitchell Caplan>: Yes, two reasons. One is, there's good news and bad news with professional being down so significantly. So I think if you saw our DARTs were up nicely quarter-over-quarter and, certainly, year-over-year. It was driven much more by retail, which was up 16%. In fact, professional was down 8%. So when you think of the mix between retail and professional, retail has a significantly higher average commission than professional. Then commensurate with looking at the retail commission, when you look at the mix between products that are higher yielding in terms of average commission, things like options and otherwise, international, as well as the kinds of customers meaning more main street, less active trader, you end up shifting toward a higher average commissions from that, as well. So the answer to your question is mix shift, and it's a mix shift both in terms of retail and professional, and also within retail. Again, we've guided down for Q4 to $10. Assuming that you'd see a more traditional return to the mixes that we have always seen historically to the extent that's not the case there's upside. But right now, clearly, our view is that we would presume that Q4 may look more like the norm.

<Q – Richard Herr>: Okay, thanks a lots.

<A – Mitchell Caplan>: Absolutely.

Operator: Your next question comes from Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Yeah, hi, guys, how you doing?

<A – Mitchell Caplan>: Hi, Rich.

<Q – Richard Repetto>: Hey, I was just going to zone in a little bit. I had some peculiar numbers here on the institutional segment, in the segment earnings.

<A – Mitchell Caplan>: Absolutely.

<Q – Richard Repetto>: It looks like, for whatever reason the net interest is going down quarter-to-quarter, I was wondering, in the back on the bank net interest, that's up. So, what have I missed? There's a number in here that I'm not getting.

<A – Mitchell Caplan>: Yeah, you are absolutely missing the most important connection, and that is if you look at the number on the P&L, it ultimately gets reduced or eliminated through consolidation. That is a payment that gets made from institutional to retail for the origination of both retail deposits and retail credit products. So, it is possible for the institutional spread to look like it's going down simply because it's losing earnings as a result of paying more to the retail business. This is exactly what you want to see. You want to see more and more growth on the balance sheet coming from the retail business, and the retail business getting paid for it by institutional. So, you'll see it. But I was talking about holistically when you think about enterprise spread. You'll see the overall spread of the Company going up. You'll see the spread of the bank going up. You'll see the whole company spread going up. But, institutional it's just acting now in the capacity not as an originator as much, but more as a manager of the balance sheet around credit risk and interest rate risk.

<Q – Richard Repetto>: I think, I got it. It's more of an inter-company, like it says elimination.

<A – Mitchell Caplan>: It is. It is simply the payment in dollars from institutional to retail for their ability to generate deposits and also borrowings. And, the reason that's the case is that, as you know, retail deposits are our lowest form of, in terms of cost of liability. So, you want to reward retail for generating it as opposed to having you go out and do wholesale borrowings. Similarly, that same thing is true, that yield on direct originated products, mortgages, HELOCs, a margin, whatever it is, it's going to be higher than what you would be buying in the secondary market.

<Q – Richard Repetto>: Okay, Mitch. And just sticking on this retail -- excuse me -- institutional focus here a bit. It looked like the brunt or the good increase, big increase in comp was absorbed in institutional. I'm just taking a look -- it went from 13 -- you know up 14 million, and you had a 17 million or so increase. You know, just trying to figure out, why --

<A – Mitchell Caplan>: Happy to walk you through it. So I think as you know, Richard, a couple years ago, when our esteemed CFO took over, he became incredibly focused on deployment of capital. And as we think about allocating expenses throughout our business including comp and benefits, the expenses get allocated based on the capital that's required. So if you look at the total capital on our company, a very significant percentage of it is allocated over to the balance sheet management group in institutional. As a result of that, they take a very significant proportion of overall expenses, which were to be allocated including comp and benefits. So when you see as Rob walked you through in expenses this quarter being up $20 million or $21 million, and 18 of it being up in comp and benefits, and then you're allocating that based on overall capital deployment, they end up getting hit with a significant piece of that capital allocate – of that allocation of expenses.

<Q – Richard Repetto>: I get it. I thought -- I wanted to be an institutional guy, because I thought you are giving them the bigger bonuses?

<A – Mitchell Caplan>: No. And what happens is – Dennis is [audio gap] with your question because you are so focused on op margins and profitability. Then -- and, that -- those numbers in the end will get trued up when you pay out the final bonuses.

<Q – Richard Repetto>: Okay. And very last question, don't want to go on here. The -- Jarrett, when we – early September, we talked about, you know, we thought we'd hit 1 billion in net new client cash and deposits. So I assume – I think, we're on the run rate of probably, I would assume, 800 or so through the two months. And then for the three months we ended up increasing 800 overall. So I'm just wondering did we see something in September with client cash, you know, that – where the rate, the acceleration slowed a bit in September?

<A – R. Jarrett Lilien>: No, really what you saw is the continuation of it. That's what made it so impressive is that the market was strong. So you saw a lot of that money moving into the market. If you look at security holdings, they were up $5 billion in the quarter. And basically, if you looked at it overall, total assets were up 10%. So really, cash came in, and it just went to use with other products, some of it, and some stayed in the cash products. So it was exactly as the model is supposed to work.

<A – Robert Simmons>: And Rich, let me also add a little something into that, and bridge you through some of the numbers. So a good way to think about that is the most significant investment by our customers in equity did happen in the third month of the quarter. Not surprising, when you see the performance of the marketplace. So one thing to Jarrett's point is that when you look at asset growth being up 10% quarter-over-quarter, it was also up about 9 or 10% with respect to the securities holdings. You know, the market was up on a blended basis about 4%. So you know that there was net in-flow, significant net in-flow into equities from our customers. So basically what you saw happen over the course of the quarter was $700 million moved from what would be defined as free credit on the bank – on the brokerage balance sheet over to the bank. In addition to that, you had in the neighborhood of $300 million of organic growth in cash that was moved from within the system onto the bank's balance sheet. You had about 200 million in transaction accounts, and you had about another 200 million in certificates of deposit. Now, what's interesting is both the CDs and the transaction accounts are about in the high 90s as a percentage being originated from our core investing customers, as opposed to the marketplace at large. So, when you add those up, you get about the 300 and the 400 is about 700 million of net growth in the system. Okay. So, and total enterprise cash was up about 800.

Then specifically what happened is you actually saw growth in either free credit or sweep in excess of that by about $600 million. That $600 million ultimately flowed out between the time that it came in and the end of the quarter as people invested in the equities marketplace. So net-net, we ended up in a place where we got about 1.4 billion onto the balance sheet from a bank perspective which optimizes the spread. We got net-net 800 million of enterprise cash up, and we saw at least 600 million of our current customers' cash move into equity and equity holdings. So, as Jarrett said, one of the things that we've always wanted to test is what happens to the marketplace when you have a stronger equities market? Can you still grow cash? And, this is evidence of being able to grow 800 million in enterprise cash, while also growing assets and particularly securities holdings.

<Q – Richard Repetto>: I understood. I guess the moral of the story here is you need to look at it more holistically, right?

<A – R. Jarrett Lilien>: That's exactly right. And that's why you know one of the things I hinted at is you'll see us in short order to start looking across the board at enterprise numbers. So we last quarter, we introduced this concept of enterprise cash. Soon you'll see the concept of enterprise yield on credit. That will ultimately lead to enterprise spread within the Company. So the great news is that Dennis and the team did an awesome job in a very difficult market of widening the spread by a basis point. At the same time, totally independent of that, our margin balances grew. You saw the growth in margin above quarter-over-quarter and year-over-year, and this quarter margin spread widened by over 60 basis points. So if you look holistically at the whole enterprise, you would have seen an even greater widening of credit spreads.

<Q – Richard Repetto>: I get it. Three more fed hikes, too, so it should widen farther.

<A – Mitchell Caplan>: Yeah.

<Q – Richard Repetto>: Thanks, guys.

<A – Mitchell Caplan>: Absolutely.

Operator: [Operator Instructions]. Your next question comes from Campbell Chaney with Sanders, Morris, Harris.

<Q – Campbell Chaney>: Good afternoon, everybody.

<A – Mitchell Caplan>: Hey, Campbell.

<Q – Campbell Chaney>: Looking at some of the asset liability management, the numbers on your rate volume table in the back.

<A – Mitchell Caplan>: Okay.

<Q – Campbell Chaney>: I noticed, you switched about $1 billion out of the reverse repos into FHLB advances. Can you walk us through that, cause you are just trying to go out the duration curve a little bit on that, lock-in some rates?

<A – Mitchell Caplan>: Yeah. Well, actually no. There's virtually no difference in duration between FHLB and reverse repo. There are FHLB products that you can buy with embedded options in them that have a longer duration protection. But when you look at our current borrowings from FHLB, they're virtually overnight, and so is reverse repos.

<Q – Campbell Chaney>: Those still --

<A – Mitchell Caplan>: So there is very little impact. The benefit is that traditionally the cost of borrowing at the Federal Home Loan Bank is less expensive than it is for reverse repurchase agreements, particularly with collateral like loans, whole loans. So as we continue to increase our whole loans and our overall loans as a percentage of assets, it's much more cost effective to use that as collateral at the FHLB, and borrow it from them.

<Q – Campbell Chaney>: So I -- we just -- be safe to say we're going to continue to see this trial overnight repos come down, and FHLBs go up?

<A – Mitchell Caplan>: Yeah, I think that would not be not -- I think that would not be surprising at all.

<Q – Campbell Chaney>: Okay. And can you give us an idea of how Harrisdirect is going to fit into this table? Maybe give us some color on impact on the margin now that you've had Harris for a little bit of time?

<A – Mitchell Caplan>: You mean in terms of –

<Q – Campbell Chaney>: The net interest margin, and the impact --

<A – Mitchell Caplan>: No, again, I think what we said on the call was that we expected a neutral Q1 for Harrisdirect, which is this current quarter. So we assume that whatever the benefits were as a result of the revenue, they would be offset by the expenses, and so the real benefits for Harrisdirect would come in '06, now a full quarter ahead. So there's nothing that you should see that's going to be meaningfully different as you -- we report in Q4, and then with respect to next year, it will make a big difference, and we'll talk about that when we do guidance in December.

<Q – Campbell Chaney>: And you're talking about the net interest margin.

<A – Mitchell Caplan>: Yes.

<Q – Campbell Chaney>: Okay. Okay. Great. Thanks a lot.

<A – Mitchell Caplan>: Again, because as you know with Harrisdirect, we get about $3 billion of cash which is helpful, and we get a little bit over $1 billion in margin. So the idea with both Harris and direct -- with Harrisdirect and BrownCo. was not only to connect with those customers around the trading, but also part of what we were purchasing was the relationship with those customers which included cash and credit in the form of margin.

<Q – Campbell Chaney>: So as things look, it looks that it's going to be additive to the margin?

<A – Mitchell Caplan>: Absolutely. It will be additive to the margin, and then the issue is just on a macro level what else is happening. Again, I think, Dennis did an extraordinary job this quarter. What you basically saw happen was overall both our assets and our liabilities re-priced. Our liabilities re-priced about 5 basis points lower than our assets did, and then there was about a 4 basis points compression as a result of the flattening of the yield curve resulting in a net-net 1 basis point increase in spread.

<Q – Campbell Chaney>: No, I think you guys did a terrific job keeping the margin up.

<A – Mitchell Caplan>: Thanks.

<A – Robert Simmons>: Thanks Campbell.

Operator: Your next question is a follow-up from Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Yeah, just one last quick question.

<A – Mitchell Caplan>: Sure.

<Q – Richard Repetto>: The 6 to 8 million increase, now is that just parted on from the last campaign, or is this a campaign designed to sort of handle any potential attrition with the acquisitions?

<A – Mitchell Caplan>: I don't know that it's really -- I think, it's focused globally on all of our customers, both current and prospective. The best way I can answer it for you.

<Q – Richard Repetto>: Okay, thanks.

<A – Mitchell Caplan>: Absolutely.

Operator: Ladies and gentlemen, we have reached the end of the allotted time for questions-and-answers. I would now like to turn the conference back over to management for any closing remarks.

Mitchell H. Caplan, Chief Executive Officer

Thanks very much everybody for joining us, and we will speak to you in December when we give the guidance call.

Operator: That concludes today's E*TRADE Corporation's Q3 earnings call. You may now disconnect.