MANAGEMENT DISCUSSION SECTION

Operator: Welcome to E*TRADE FINANCIAL Corporation's Fourth Quarter 2007 Business Update Call. At this time, all participants have been placed on a listen-only mode. Following the presentation, the floor will be open for questions.

I've been asked to begin this call with the following Safe Harbor statement. During this conference call, the company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance.

E*TRADE FINANCIAL cautions you that certain factors including risks and uncertainties referred to in the 10-Ks, 10-Qs and other reports periodically filed 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.

This call will present information as of January 24, 2008. Please note that E*TRADE FINANCIAL disclaims any duty to update any forward-looking statements made in the presentation. In this call, E*TRADE FINANCIAL may also discuss some non-GAAP financial measures in talking about its performance. These measures will be reconciled to GAAP either during the course of this call or in the company's press release, which can be found on its website at etrade.com.

This call is being recorded. Replays of this call will be available via phone, webcast, and podcast beginning today at approximately 7 PM Eastern Time. This call is being webcast live at etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

I'll turn the call over to Mr. Jarrett Lilien, acting Chief Executive Officer of E*TRADE FINANCIAL Corporation who is joined by Robert Simmons, Chief Financial Officer. Mr. Lilien, please go ahead.

R. Jarrett Lilien, Acting Chief Executive Officer and President

Thank you and welcome everyone to our year-end 2007 conference call. In today's call, we are going to provide an overview of our fourth quarter and full year financial results and then spend the bulk of the time on our action plan that addresses the financial issues facing the company to restore customer confidence. Our plan builds on steps we have already taken and establishes a roadmap to remove risks in the bank balance sheet, reduce leverage at the parent company, and reduce non-core expenses to reinvest in business. The combination of these actions will significantly diminish the financial risks of the company and address the primary overhang of the perceived quality of the franchise.

By restoring customer and investor confidence, we will accelerate our recovery and return the core business to growth. At this point, I would like to turn the call over to Rob to discuss the fourth quarter and full year financials, I will then dive deeper into the details of our 2008 turnaround plan and provide our outlook for the year.

Robert J. Simmons, Chief Financial Officer

Okay, thanks, Jarrett. On slide four, you can see that the performance of our retail and institutional segments deviated significantly from each other last year. The retail portion of the business delivered very strong financial results, driven by exceptional growth across all of the key drivers of the business. For the full year, retail segment net revenue totaled a record 1.8 billion with a record pre-tax segment income of 789 million.

Unfortunately, the institutional portion of the business, which includes balance sheet management faced significant challenges as a result of industry-wide deterioration in the performance of mortgage related assets. The institutional segment sustained a pre-tax loss for the year of 2.8 billion due largely to 2.5 billion in loss on loans and securities and 640 million in provision expense, which is a $595 million increase from the prior year.

As a result of the well-documented balance sheet related challenges in the institutional segment, the company reported a consolidated net loss of $3.40 per share for the year, the first annual loss since the repositioning of the business in 2002. Turning specifically to the fourth quarter, we reported a net loss per share of $3.98. These results were the net effect of major losses in the institutional segment despite a continued strong performance in retail.

To put some additional context around the contributors to the loss in the quarter, I'd like to highlight a few specific items on slide 5. As you know on November 29th, we announced the sale of our asset-backed securities portfolio in conjunction with an investment in the company from Citadel. This transaction generated a net loss of $2.2 billion.

At the time of the announcement, we also indicated that we expected to end the year with an allowance for loan losses of approximately 400 million. We increased our provision in excess of charge-offs in the fourth quarter and increased the ending allowance, finishing the year with the total allowance for loan losses of $508 million. The increase to our provision and allowance levels in the fourth quarter reflects our view on the timing of losses rather than a change to our expectation for cumulative losses.

Through these additional reserves, we ended the year with a 200% coverage against non-performing home equity loans, up from 116% coverage in Q3. Both the realized loss on the ABS sale and the increased provision expense are reductions to reported revenue, which resulted in a $2 billion net negative revenue in the quarter.

On the expense side, we had a couple of items also worth noting. We are required to evaluate the book value of goodwill carried on the balance sheet for impairment, as a result of the decline in fair value of the balance sheet management business, the goodwill associated with this business was impaired resulting in a write-down of $101 million in the quarter. While this goodwill write-down increased the per share loss for the quarter by $0.21, it is important to keep in mind that it is a non-cash item with no impact to tangible equity. In addition, professional services' expenses increased by $14.5 million, driven by higher legal, consulting, and outsourcing fees. We do not expect these expenses to recur at this level in 2008.

Restructuring expense totaled $28 million, as a result of decisions to exit non-core low margin businesses such as institutional brokerage and wholesale mortgage as we have previously announced.

Other expenses increased in the quarter by $9 million and about half of this increase was non-recurring items related to regulatory fees and T&E expense. We expect other expense to return to a run rate that is more consistent with the first and second quarter of 2007.

Advertising increased $15 million quarter-over-quarter, however, most of this increase was planned in advance of the quarter. A portion of the increase, or about $4 million was due to our decision to increase our customer communications and presence in the marketplace in November and December to help stabilize our customer base. Aside from these items, core operating expenses declined in the quarter. Compensation and benefits declined $12.9 million, net of approximately 6 million in severance-related expenses. Clearing and servicing expense declined by $13 million, a direct benefit of the exit from our institutional brokerage operation.

The action taken this quarter to sell our ABS portfolio and simultaneously to replenish the related bank capital did result in a large loss but it addressed our primary financial risks and allowed us to begin the process of restoring customer confidence. This transaction provided timely stability for the business and helped to quell customer concerns by providing us with three primary benefits. It stabilized customers by instilling confidence in the viability of the company, it provided additional funds of the parent to enable the bank to address potential losses in the home equity portfolio, and it strengthened excess capital level.

The Citadel transaction represents one of several tangible steps we took in the fourth quarter to remove risks, strengthen the balance sheet and restore confidence in our franchise. While we recognize that much work remains to be done, we have made solid progress already.

Last for your reference, an updated version of our supplemental portfolio disclosure will be available this evening and can be found on the Investor Relations portion of our website.
Now to go through the highlights of our 2008 turnaround plan, I turn the call back over to Jarrett.

R. Jarrett Lilien, Acting Chief Executive Officer and President

Great, thanks Rob. Setting aside for a moment the financial challenges that stem from the balance sheet issues last year. 2007 was a pretty remarkable year for our retail franchise. As Rob mentioned the core retail segment delivered record results despite the disruption we faced in November. It is important to understand the momentum that was building in our retail business to assess our ability to get the franchise back on track. The disruption was the result of a broken balance sheet not a broken business.

On slide 7, you can see that through the third quarter, the retails business was on a steep growth trajectory. This growth was driven by our success in attracting, retaining, and migrating customers into our highest value segments. The core drivers of the business including net new accounts, starts, cash and assets were all on pace to end the year at record levels.

As of the third quarter, total client assets reached a record 218 billion representing a 16% annualized growth rate from the beginning of the year. This growth included 24% annualized growth in customer cash to a record $40 billion. We also generated the strongest organic account growth we have seen in over seven years, including a 23% annualized increase in our target segment accounts.

As a result of the financial challenges in the Bank's balance sheet, confidence was shaken in November. This confidence issue led to a disruption to our customer base, which resulted in an 8% decline in total assets, which included a 17% decline in customer cash balances. In dollar terms, this translates into $16.5 billion of total assets, including 6.8 billion in cash.

With the announcement of the Citadel's transaction on November 29, we were able to stabilize the outflows and begin to restore customer confidence. As we indicated in December and again earlier this month, customer cash balances have remained stable at about $33 billion since the deal was announced.

At the account level, the disruption was significantly less material. From November 11th through year-end, actual account closures attributable to the disruption were only about 17,000 or just 1.5% of our total account base.

This makes an important point. Most customers maintain their relationship with us even if they decided to move some assets elsewhere in November and December during the peak of concern. This is encouraging and we believe it gives us a greater likelihood of success in winning back assets as we address concerns. This was apparent this past Tuesday, when we saw two times the normal level of cash inflow through our quick transferred product from external sources while at least one of our competitors had platform issues and difficulty handling the high market volumes of the day.

Overall, the pathway back for us started with the Citadel capital infusion and now continues with our turnaround plan. The plan addresses the company's financial challenges, and in doing so allows us to get past the concerns that we've been facing, restore confidence, and return our franchise to growth.

Turning to the plan, and to slide 8, our rigorous assessment of the company evaluated all of our operations and resources. The plan we have created aggressively addresses the factors that led to the concerns. There are three core goals to our plan; reduced risk in the Bank balance sheet; reduce leverage of the parent company; and reduce expenses to fund investments in the core business.

Taking those, one at a time, first, the primary concern around the strength of the Bank related to capital levels and our ability to list down losses from the home equity portfolio. Slide 9 shows the home equity loan performance metrics and where we have already begun to address this issue with the increase in loan loss allowance in Q4.

Current reserve levels provide for annualized losses in this portfolio of nearly 4%. This compares to the annualized charge-off rate of just under 3% that we experienced in the fourth quarter. The combination of increased loan loss allowance and a growing base of excess bank capital provide additional capacity to withstand deterioration in this portfolio.

We estimate between 1 billion and 1.5 billion in cumulative losses in our home equity portfolio over the next three years. And this expectation is consistent with evaluations performed by independent third parties. As a further example, on slide 11, we show our home equity portfolio and cumulative loss outlook in the context of the Wells Fargo liquidating home equity portfolio. While the Wells Fargo portfolio is similar to ours in terms of size, the underlying credit characteristics, first lien position, exposure to California and origination channels in our portfolio are better. Despite these differences our forecasted losses in reserved levels are in a similar range.

In 2008, we expect provision expenses to be between 400 and 600 million; we entered the year with reserves of 508 million and expect to exit 2008 with strong reserves and excess regulatory capital approaching $1 billion and building over time. In our view, this positions us to withstand our forecasted losses over the next three years while remaining well capitalized at all times.

If market conditions change dramatically in 2008, clearly we would need to make adjustments to our reserve level, but given the information we have today and the independent third party credit analysis of our portfolio, we believe our reserve levels are appropriate and reasonable.

We expect home equity loans to decline by approximately 15% from current balances over the course of the year as this portfolio runs off. Given current market conditions and liquidity discounts for these types of assets, our plan is to hold and aggressively manage these loans over time. Should markets recover significantly, which we are not expecting, we will evaluate opportunities at that time to de-lever at a faster pace and in an orderly fashion.

In the meantime, we have formed a special credit management team to focus on home equity loss mitigation. This includes potential loan modifications and aggressive efforts to reduce open or un-drawn credit lines. We are already making progress on this front. Open home equity line commitments have declined in the past several months by $1 billion.

Turning to the capital levels at the bank, we plan to build up excess capital through a combination of retained earnings and further de-leveraging. Our plan calls for us to end 2008 with capital in excess of well capitalized standards of nearly $1 billion at both the Tier-1 leverage and risk-based measurements.

Progress towards reaching these targets is already underway and it has benefited from a 150 million received from Citadel in mid-January. By year-end, we expect the Tier-1 and risk-based capital ratios will climb to roughly 7% and 12% respectively. Addressing the leverage and total debt burden at the holding company is the second element of the turnaround plan. We will improve capital and liquidity at the holding company over time through a combination of asset sales and potential capital markets transaction.

Decisions to sell assets are focused on non-core businesses and investment and actions here are already in the works as well. We generated 10 million in asset sales in the fourth quarter and we see an opportunity for 250 to 300 million for all of 2008. We expect about two-thirds of this amount to come in the first half of the year. We have also identified a number of other potential capital raising activity and these could further benefit the second half of the year. We will be both disciplined and opportunistic in selecting the action we take, our objective to reduce leverage at the holding company via these initiatives is our down payment towards improving our credit ratings over time.

The third element of the plan is to reduce operating expense to fund growth investments in the core franchise. There is no doubt that the fourth quarter issues created a setback in our growth trend. Fortunately, the core business and the strength of our value proposition remain intact even as we experience the spike in attrition from our retail base in November and into December, we continue to generate strong new account opening demonstrating the continued attractiveness of the E*TRADE brand. The same competitive advantages that existed before the crisis continue to exist today.

As we take the steps I've outlined to improve the financial stability of the company and restore confidence, it is of paramount important that we continue to invest to remain an industry leader. As part of the plan, we expect to increase total marketing spend in 2008 by approximately 30% over 2007, which amounts to about $45 million. We also plan to expand our Relationship Manager group to increase the personal coverage of our most valuable customers and service many of these customers would find difficult to match elsewhere with the value we offer.

Our overall customer outreach programs will work in concert with key product launches to continue to show that E*TRADE is an industry leader in innovation with a world-class customer experience.

Our 2008 plan includes the launch of a series of new products and services, such as a new mobile trading platform, a home deposit solution and expansion of our industry leading global trading offering for U.S. customers. In our international retail business, we will further leverage our global technology platform to increase efficiency, improve operating leverage and strengthen our product set to gain market share.

Reducing expenses is another core element to our plan. We have created a series of cost cutting initiatives that include two phases. The first phase is already underway and it reduces our core-operating base by about 100 million by cutting non-essential and general overhead expenses. Our total expense based in 2008 relative to 2007 also benefits from the exit of our institutional brokerage operation and the elimination of non-recurring items.

This represents 260 million of expenses from last year that will not run through to 2008.
The combination of direct expense cuts and the non-recurring items will reduce the total expense base in 2008 by roughly $360 million. We then plan to take approximately $85 million of this forecasted savings to fund strategic investments in marketing, service and product in both our U.S. and international operations.

The second phase of expense reduction includes exploring further organizational streamlining including additional operations in technology integrations between the bank and broker and the benefit of the second phase actions, they are not currently budgeted for 2008, but could represent an opportunity to take another 40 to $50 million in cost out of the business over time. Through an increased focus on expense discipline, we can self fund investment to keep the core franchise on track for growth while we address the financial concerns of investors. It is important that as we work to restore investor confidence, we do not lose our focus on delivering a world-class experience for our customers.

I like to now turn to slide 14 to spend a few minutes on our outlook for 2008. This year, we are approaching our annual guidance a bit differently. Given so much uncertainty around the interest rates, the economy and the stock market, we will provide you with the range of expectations for a set of key business drivers rather than revenue and earnings expectations. We think this is more constructive than providing what would have otherwise been a wide range of potential bottom line results.

In addition, we are reinstating monthly metrics to help you gauge the trends of the business over time. Through the combination of monthly and quarterly reporting, you will get a good view for the progress we're making on the turnaround plan and the overall performance of the business. While we expect to return the company to profitability in 2008, we are anticipating a net loss in the first quarter. The expected loss in the first quarter is a result of timing differences between the benefits of our plan versus higher provision levels and greater charge-offs expected in the early part of the year.

In addition, we expect investments in marketing and new products to payoff later in the year with expense hitting in the first quarter. The headwind from these front loaded expenses will ease as the year progresses.

Our expected ranges and levels for the key drivers of the business are affected by two factors; the economic backdrops for 2008, and the impact to our driver run rates as a result of the November customer disruption.

With respect to the economy, we have assumed a slowdown in 2008, but not a recession. For the drivers, we are clearly working off a different base given what happened in November. To give context, we estimate that the run rate impact on DARTs and margin was about 8% on each and 17% for cash. On an economic basis, this results in a 10% reduction in annualized retail segment net revenue.

So with that as a backdrop, I'll give some color on a few of the key drivers. For DARTs, we expect to range between 170,000 and 200,000 for the year. For total customer cash, our expectation is 33 and 37 billion at year-end, at the low-end it is relatively flat with current levels and at the high-end we have modest growth that is a function of both new account growth and customer win-backs. If we are able to win back just 30% of the cash we lost in November, it would provide $2 billion worth of growth or half of what we expect for the full year at the high-end of the range.

We expect average interest earning assets of between 45 and 49 billion, which is down from 52 billion at year-end. This decline is the result of continued prepayments and pay downs but does not assume any capital markets actions.

I've already covered provision levels and capital ratios so I won't spend any more time on that.

Finally, the Board is making progress in their work to announce a permanent CEO and we expect to have a resolution on this topic by the end of February as the Board originally committed.

In closing, I'd just like to reiterate a few points. Our core retail franchise remains strong and stable as a result of the actions we've already taken. Through the plan we've outlined today we will continue to address concerns about the business by strengthening our capital position, managing future loan losses in an orderly fashion, and restoring growth to our core retail business.

E*TRADE is an industry leader for a reason. The value proposition we offer plus our ability to develop innovative products and provide quality service to our customers is what built this company. It is our core competency and it is what will return the franchise to growth.

With that, let me open it up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Your first question Rich Repetto with Sandler O'Neill. Please proceed.

<Q – Richard Repetto>: Hi, good evening, Jarrett.

<A – R. Jarrett Lilien>: Hi, Rich.

<Q – Richard Repetto>: Hi, I guess the first question comes – I guess on the reserve because we had talked about the provision expense and can you – being 400 to 450 now looking 400 to 600, and can you – I know you said it was based on timing. Can you – but can you go a little bit deeper to understand you know what you expect as far as losses and why it's 500 versus 400 that we you know a mid – low 400s that we were looking at before?

<A – R. Jarrett Lilien>: Yes, sure. I will give a little color and then we are going to let some others chime in and can add on about some of the plans that we have for loan loss mitigation. But again we haven't changed our expectation for cumulative losses that was 1 billion to 1.5 billion over three years, it remains 1 billion to 1.5 billion over three years. What has changed is in our own conservative modeling, we've chosen to change a couple of assumptions, which impacts the timing of those losses. So we expect some of those to come earlier rather than later. That was the reason for taking the allowance up from 400 to 500 million. Basically, if you looked at the fourth quarter, we had about 100 million of charge-offs there. If you look at a 500 million allowance, clearly what we are saying is we expect things to get worse before they get better. And our expectation is that they will get worst in the first half of the year and then we will start to see some improvement in the second half of the year.

<Q – Richard Repetto>: Okay. And I guess my one follow-up is just a little bit a more on that. So it doesn't have to do with deterioration that you're seeing or increased deterioration of the portfolio and let me tack on – can you also talk about the 101 impairment charge more you know in a little bit more deeper in detail on that as well and that's all I got.

<A – R. Jarrett Lilien>: Well on the first question again, versus our expectation, the change in the allowance was not because of further deterioration versus expectation. I want to say, we do expect things to get worse. We expect the slowing economy, we expect that there will be more defaults; we expect that housing prices will continue to decline. So all of that are in our numbers and again the change in the allowance was based on timing and nothing else.

<A – Robert Simmons>: Rich, on the question of the impairment of goodwill, it's really a function of the year, it's part of the year audit process you obviously go through and evaluate your goodwill for impairment, make sure that it still represents the value that it should on your balance sheet. As part of that process, the goodwill that was attributable to our balance sheet management business, you know as a result of the challenges that we have had on the credit front, the goodwill related to balance sheet management was determined to be impaired so we took that charge in the fourth quarter, which again is a non-cash charge and does not impact regulatory capital but did impact our EPS as we've said.

Operator: Thank you. Your next question is coming from Matt Snowling with FBR Capital Markets. Please go ahead.

<Q – Matt Snowling>: Can you hear me?

<A – R. Jarrett Lilien>: Yes.

<**Q – Matt Snowling**>: Yeah. I'm sorry. Jarrett, I guess, can you talk a little bit about the type of customer that you may have lost during the quarter in terms – I guess what I'm trying to get is, is this more of an active trader that you may have lost or a high balance customer?

<**A – R. Jarrett Lilien**>: We obviously lost some high-value customers and that goes without question, as I said in the prepared remarks, attributable to the crisis we feel we lost 70,000 accounts, the average asset size per account about $236,000, so that is a good customer. But if you look deeper into it you will see – you can't see, but we actually had growth in the quarter overall in our active trader segment, and in our active trader segment that also qualifies as high asset customers, which we call the ideal segment. Where we saw net losses overall were in the balance customers, you know, the people holding really buy and hold or cash only customers, so that's a little bit on the profile.

<**Q – Matt Snowling**>: Okay. And I guess a real quick follow-up. Can you give us a sense of where you're positioned from a balance sheet perspective relative to Fed cuts?

<**A – R. Jarrett Lilien**>: Oh Fed cuts, well on the balance sheet, I mean, on – look, Fed cuts, that's going to be an interesting one for us, we expect 75 basis points more to come. On one level Fed cuts are – can only be good news, we would hope that they would improve credit and help some of our portfolios to perform better than expectation. In terms of spread, it actually works against you, because you will have some spread compression because of what will happen on the cash side of the balance sheet. Offsetting that spread compression though will be the fact that we are delivering and the part of the balance sheet that we are delevering happens to be more of the carry trade or low spread trade. So overall, even with more Fed cuts built into our plan, we do expect some modest spread expansion but basically, the rest is built into the plan.

Operator: Thank you. Your next question is coming from William Tanona with Goldman Sachs. Please go ahead.

<**Q – Bill Tanona**>: Hi, good afternoon. I apologize if you guys already talked about this earlier, I came on a little bit late but you are looking at $0.84 in terms of tangible book value, obviously it doesn't give you much in the way of flexibility and you had mentioned additional capital raises. So wanted to get a sense as to how much do you think you may need to raise, in what forms you are kind of thinking about raising and how do you think about using that? Would that be something to raise just to try to unload some of that home equity portfolio or like we have seen with some of the larger investments banks, or would that be something that you would just want to give yourself a little bit of additional cushion to try to work through some of the mortgage loans that are on the balance sheet?

<**A – Robert Simmons**>: Bill, one of the things that you might have missed earlier, if you joined late was that the plan around asset sales, that we have got, as Jarrett signaled, somewhere in the neighborhood of 250 to 300 million of potential asset sales in the works. The topic that you bring up is one that is central to our recovery plan, it's very much a focus for us. We leave open the potential of in addition to asset sales, capital markets related transactions opportunistically potentially later in the year. But one of our key objectives is to increase capital and delever the holding company from here.

<**Q – Bill Tanona**>: Okay and did you guys, were you able to sell any of the home equity portfolio in the quarter or was that all kind of just run-offs in terms of what had the balances in terms of their decline?

<**A – R. Jarrett Lilien**>: Our plan for the home equity portfolio is to hold on to it. We are still in an irrational market. The way we look at it, the capital markets are more or less closed right now and selling would not be an option. So we are holding those securities that's our – or those loans, that's our intention. And again as we went through, which you might have missed in the prepared

remarks, because really from here it's about making sure that we have got appropriate reserves and that we are building excess capital to withstand in the ordinary course of business any losses that come our way. We feel we are in that position. If the market recovers significantly, then we would look to potentially deleverage faster, but that's not the market that we are expecting and it's not the market that we are in today.

Operator: Thank you. Your next question is coming from Roger Freeman with Lehman Brothers. Please go ahead.

<Q – Roger Freeman>: Hi, good evening. I wanted to come back to, I guess the timing issue of losses that you talked about before. Is the – I guess is the accelerated speed of losses coming out of the 1-to-4 family portfolio? That was the one thing that sort of struck me in the disclosures at the end of the press release around the charge-off rate increased significantly there. And I guess if you really look over the last two quarters now, both of those, both the 1-to-4 family portfolio and the HELOC portfolio have seen delinquencies increase in the $100 million range. So it seems like they are both sort of performing similarly, I know that 1-to-4 family portfolio is bigger, but can you maybe talk about that if 1-to-4 is the issue here?

<A – R. Jarrett Lilien>: Yes and again, I will let others jump in, but really the issue for us is in that home equity portfolio and that's the one where we expect the majority of losses for '08. You are right we did see an up-tick in losses coming out of the 1-to-4 family, but they are still at a very low level. We still have a portfolio that is better than the industry average in terms of credit quality, but even so that said it's not immune to what is going on and so there is an expected up-tick in some of the charge-offs there and that is included in our allowance forecast for this year.

<Q – Roger Freeman>: Okay. My second question, I guess would be around the nature of the cash that is coming in the door. So your cash balance is, and I don't know if you are going to in the answer here provide a current customer cash balance, but it's been fairly stable since the end of November yet, obviously Ameritrade was talking last week because they are still seeing very heightened levels of cash flows coming out of E*TRADE to them. And so is the cash your replacing coming in mainly through CD's here, which I think we looked on bankrate.com you're the highest in the industry. So is that where most of this cash coming from, do you think that's stable cash and do you plan to remain at sort of the top?

<A – R. Jarrett Lilien>: I guess two things, first on Ameritrade. They certainly took some assets from us, but I will tell you that the asset outflows were 75% of them were really concentrated in the two-week period at the end of November. Things have very much stabilized since then. Also, we have seen some of the reverse, we did see a big day on Tuesday, the markets were -- activity was very busy. We had record number of users logged onto the E*TRADE system and at other places that caused slowness and outages and we saw some of the money come back.

So that's the nature of the whole transfer of assets, some goes on one day some comes back, the majority of what went to Ameritrade though was really in that crisis period. As to the money that's coming into cash products, first of all you want to look at the cash that left and a significant portion of cash that left was actually in our highest rate product being the complete savings account and likewise on the return it had not been one of hot money. Actually 71% of the new deposits in the fourth quarter came from brokerage customers, existing customers and the average cost of funds on that incoming cash into bank products was 3.8%. So obviously it was a balance of some of the higher rate products, but also some of the lower rate products.

Operator: Next question is coming Howard Chen of Credit Suisse. Please go ahead.

<Q – Howard Chen>: Hi Jarrett, hi Rob. I just wanted to follow-up on the one-to-four family portfolio, what is the specific deterioration you are baking into your assumptions, is it a 10% reserve coverage for '08 and can you update us on the state of any insurance or CDS you might have against that, one-to-four family portfolio.

<A – Robert Burton>: Hi this is Bob Burton, Howard, let me take that one. If you look at our reserve position for 2008, we are assuming that less than 5% of that reserve will be needed by the first portfolio. We look at that portfolio and think it compares very favorably to other lender, primarily because of our very limited subprime exposure, only about 7 basis points in the first lean portfolio with subprime. And second because we don't have any exotic products, no pay option loans or other neg-am type loans.

<Q – Howard Chen>: And in the state of any insurance or CDS, you have against that portfolio?

<A – Robert Burton>: I think we've said it previously that we have credit protection on about $4 billion in that portfolio.

<Q – Howard Chen>: Okay. And then the second question I had, what's the current state of the revolver as up to the holding company, when should we expect an update there?

<A>: Sure Howard, the revolver as you know the prior revolver that we had going into the Citadel transaction, we canceled. As you know there was nothing outstanding on it at the time at the cancellation. And we are currently working to establish a new revolver that would be at the holding company level, again that would be part of our ongoing liquidity program and we'll give more details as appropriate. But we would expect to have some more to say in the not to distant future.

Operator: Thank you. Your next question is coming from Mike Vinciquerra with BMO Capital Markets.

<Q – Michael Vinciquerra>: Time here. What is the available draw for your clients, I know Jarrett, you said that you expected to drop the balances to drop about 15% from share runoff this year. But your clients, I presume have the ability to make additional draws, is there any way to mitigate the risk on those available lines that are outstanding?

<A – R. Jarrett Lilien>: The draw potential it's about $6 billion and again I will let Bob go into some of the mitigation efforts and some of that as I did mention in the prepared remarks, does center around trying to reduce those undrawn balances.

<A – Robert Simmons>: A major part of the work we are doing in our loss mitigation efforts of the portfolio would include looking very heavily at draws. We have draw elimination plans in place with our services now for customers who become delinquent. We are also looking at our ability to put holds on those potential draws based on changes in house value and changes in the ability of the customer pay.

<Q – Mike Vinciquerra>: Okay. Thank you. And Rob just a number – one number's question, corporate interest expense expectation for '08 just as we are modeling, I have it somewhere around 90 million a quarter assuming the borrow from Citadel, is that in the right range or can you give us an approximate number?

<A – Robert Simmons>: Yes, it's in the right range. Yes, all the numbers are out there. So this should be a pretty easy one to model.

Operator: Next question is coming from Prashant Bhatia with Citigroup. Please go ahead.

<Q – Prashant Bhatia>: Hi. The repos of about $9 billion at the end of the year, it looks they were down about 2 billion during the quarter. Could you give us the feel for how much of those mature in the next 90 days?

<A>: This is Mike Lusak, it's a little over a $1 billion.

<Q – Prashant Bhatia>: Okay. And is that you just going to replace that type of thing with FHLB, is that the plan going forward?

<A>: No. We continue to roll our repos as they come due.

<Q – Prashant Bhatia>: Okay. And in terms of getting an unqualified opinion from the auditors, is that something that you have had discussions about or well is that something that you will get you think?

<A>: We don't expect that to be an issue.

<Q – Prashant Bhatia>: Okay. And then just finally on the first lien, what have you assumed for Q loss there as well as the RV and the consumer loan portfolio as well?

<A>: On the first lien we are expecting about just under $20 million in losses in 2008.

Operator: Thank you. Your next question is coming from Mike Carrier with UBS. Please go ahead.

<Q – Michael Carrier>: Thanks guys. I just have a question on losses and then trying to understand the capital impact, especially given – conditions in the HELOC market continue to deteriorate but just assume a bad case scenario, and I'd like to say that given that a lot of the HELOCs were '06, '07 vintages but say that either the 1 to 1.5 billion accelerates to maybe two years or maybe the losses end up being a little bit higher. But what I'm just trying to understand is if you end up like to say operating at a loss for a little longer, how much of a capital cushion do you have? And in particular, like when you look at the equity at the broker versus the equity at the bank, like how negative can the tangible equity either the equity of the broker become in order to maintain the equity capitalized to bank you are like well-capitalized, and you guys aren't any different I mean a lot of the online brokers have negative equity at the broker because of the goodwill but I just wanted to understand it?

<A – R. Jarrett Lilien>: Maybe I'll take the first part of the question, and let Rob jump in at the end. But when we announced the Citadel deal we talked about at that time having 364 million of excess capital above the well-capitalized levels, we had risk ratios the Tier 1 in risk base of 590 and 1110 was the target that we were saying for the end of the year. We have already come in better than that, we've come in at 618 and 1131 with excess capital of 417 million. We have talked about the extra Citadel money coming in, in January, we've talked about the business I think on reasonable expectations – our expectations for growth in the business are not incredible and yet we expect to be through retained earnings and de-levering, we expect to end the year with $1 billion of excess capital to bank and again risk ratios well in excess of well capitalized. So if you take it and you say could charge-offs be worse than we're expecting and if we had to have provision be higher, already we can stomach a lot of that in '08 and clearly if we get into '08 as we planned to you're clearly in a very strong position to take what comes in '09, and '10. So, we think we have this portfolio in a place where we can reasonably address it and one of our real goals throughout 2008 is to get everybody comfortable with that so that we really take it off the table as an issue or as an ongoing topic of discussion.

<A – Robert Simmons>: Mike, as you know the brokers have stand – their own standalone capital requirements, so obviously they can't be negative and we wouldn't expect them to be negative. So I'm not sure where that question was going but with respect to – and just let me add a parenthetical to what Jarrett said, that when we talk about our ending '08 capital – excess capital approaching $1 billion in excess of well-capitalized standards, that doesn't necessarily – that doesn't include potential liquidity that we have at the holding company level, it doesn't include other potential liquidity that could come from other asset sales, so there's a lot of different ways in addition to the capital that we've modeled and laid out for you today that we can still be comfortable with our capital position, even in a worse-case-scenario than we're laying out for you today.

<Q – Michael Carrier>: Okay, thanks a lot.

Operator: Thank you. Your next question is coming from Michael Hecht with Banc of America. Please go ahead.

<Q – Michael Hecht>: Hey guys. Can you hear me?

<A – Robert Simmons>: Yes.

<Q – Michael Hecht>: All right, thanks. I'm sorry, I actually missed the front part of the call too, so I apologize if you've covered this upfront, but any update on the CEO search in terms of timing and when the Board is expected to make a decision?

<A>: Yeah, we did talk about it in the prepared remarks. The Board is committed – as always committed from the very start of the process that effectively they have completed the process by the end of February and they are still on track to meet that commitment.

<Q – Michael Hecht>: Okay, cool. Sorry about that. So I just wanted to also clarify something I thought I heard you say. So, you guys expect the enterprise widespread to increase next year from the 285 that you averaged for '07 and when it ended the year at 255?

<A>: Well, we expect it to increase from 255 where we ended. And the answer is yes, but modestly, and again, a big reason for that is, on a smaller balance sheet where you have gotten rid of some of the narrow spread carry trade, but clearly lower rates are working against us and creates some spread compression on the cash side.

<Q – Michael Hecht>: Okay, can I stick one more in?

<A>: Sure.

<Q – Michael Hecht>: Okay; I was a little surprised at how, I guess thinking comp expense wise – I mean, despite the negative revenues, you only had about I think 1% drop in comp expense versus I think what was a 9% drop in year-over-year head count. Can you give a little more color on, I guess how much of the 360 million gross expense declined and I guess 275 million net in overall expense is comp versus non-comp?

<A>: Well, let me talk about Q4 because that's probably more relevant.

<Q – Michael Hecht>: Okay.

<A>: If you look at the overall comp expense quarter-over-quarter, you are down about 5% or so or about $12 million. Now that's including remember the effect of some severance in the fourth quarter that would artificially pump that up, it wouldn't necessarily be recurring. So, the overall expense decrease that we had in the quarter was despite some unusual severance in there as well.

<A>: And just adding to that too if you look – and I guess this will be news that comes out at some point in the proxy, but of the top five officers in the group that would in the proxy, those directly responsible, connected to the balance sheet issues are gone and are showing up in severance here, and the remaining proxy officers are certainly accountable and will have zero bonus for this year.

Operator: You have time for one more question. Your next question is coming from Brian Bedell with Merrill Lynch. Please go ahead.

<Q – Brian Bedell>: Hi, good evening, thanks guys. Just a couple of questions. Can you talk about a little bit about the economic assumptions from the third parties on the home equity portfolio and when they concluded that analysis – and I guess in terms of economic assumptions I mean, assumptions for home prices, whether they think, we are going to be in a recession or not, unemployment rates and things like that?

<A – Robert Burton>: This is Bob Burton again, I will take that one. The third party analysis were all done in the November, early December timeframe. I think they took a look at various economic outcomes that they ran their model. In our modeling, we used the Case-Shiller data for Home Price, which gives us not only estimated loss of about 10% next year but about 5% more in the following year in terms of home price deterioration. That data also allows us to look at home price deterioration by market. So, we can look at the various pieces of portfolio and apply appropriate market price depreciation to those pieces.

<Q – Brian Bedell>: I see you have got 10% home price depreciation in '08 and another 5% in '09?

<A – Robert Burton>: For those areas that we don't have specific market data for.

<Q – Brian Bedell>: Okay. And then for interest rate assumptions, you guys said another 75 basis points of Fed cutting, do you expect that to stop after 75 or could you go from there?

<A>: We've got 75 more baked into '08, and that's in the plan so far. I would say a nice thing about where we are with these numbers versus where everybody was let's say 5 or 6 months ago, is it was hard to take your assumptions and validate them or verify them anywhere. And what we have been able to do, and again November and December and now is, through third parties, get another look through additional internal models that we have added, adding our own assumptions take a look. But also again as we talked about in the prepared remarks, we have been able to see what other banks are doing; the Wells Fargo portfolio as for instance, and then even look at coverage ratios. If you look at our coverage ratio for the home equity portfolio at 200%, it's hard to find anybody with a higher coverage ratio than that. So, you do have the ability now, which is something that's different than what it was again five to six months ago to really verify and validate some of your assumptions and your numbers. So, we feel we've been responsible and that these are reasonable estimates.

<A>: Let me add one last thing. In terms of looking at the impact of lower rates in the modeling into our estimate, there is very little benefit from any rate lowering built into the estimates that we are using right now. So if it makes sense that rates continue to drop further and there is benefit in the market from that, that's potential upside.

<Q – Brian Bedell>: Now there is one other question that I expected someone to ask, but since they didn't I'm going to ask it, so Rob can you answer it? There are going to be some interesting things around tax next year, and so, Rob what's your tax forecast?

<A – Robert Simmons>: Well just you know, hopefully be a little helpful for modeling. We do expect 2008 tax expense to be based on a pro forma effective tax rate of about somewhere in the range of 37 to 38% plus additional tax expense of 15 to 20 million. The additional tax expense I talked about relates primarily to the fact that we've got a portion of our interest expense on our new springingly notes that are non-deductible for tax purposes as well as some of the tax attributable to earnings of our foreign operation. So again, the overall effective tax rate is going to be based on a number of factors, but again we think a pro forma effective rate of 37 to 38% plus 15 to $20 million in additional expense.

Operator: Thank you. At this time, there are no further questions. I would like to turn the floor back over to Mr. Jarrett Lilien for closing comments.

R. Jarrett Lilien, Acting Chief Executive Officer and President

All right, well thank you everybody; certainly, 2007 was a difficult year and one we would like to put behind us. We do have now a clear plan. That plan includes execution, and it includes retail growth, things that we are good at and things that we have done before. So we look forward to the coming quarters to report on our progress and success around the plan. And thanks for joining us, good night.

Operator: Thank you, and this concludes today's E*TRADE FINANCIAL Corporation's fourth quarter 2007 and business update conference call. You may now disconnect your line and have a pleasant evening.