
MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the E*TRADE Financial Corporation First Quarter 2009 Business Update Call. At this time, all participants have been placed on a listen-only mode. Following the presentation, the floor will be opened for questions.

I've been asked to begin this call with the following Safe Harbor statement: During this conference call, 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.

This call will present information as of April 28, 2009. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statements made in the presentation.

During this call, E*TRADE Financial may also discuss some non-GAAP financial measures in talking about its performance. These measures will be reconciled to GAAP either during the course of this call or in the company's press release which can be found on its Investor Relations website at investor.etrade.com. This call is being recorded. Replays of this call will be available via phone, webcast and podcast beginning to today at approximately 7:00 P.M. Eastern Time.

The call is being webcast live on 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 Don Layton, Chairman and Chief Executive Officer of E*TRADE Financial Corporation, who is joined with Bruce Nolop, Chief Financial Officer, and other members of the E*TRADE management team. Mr. Layton, please go ahead.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you all for joining us this evening. We appreciate the opportunity to provide you with a business update, particularly given the continued market volatility and difficult economic environment. Bruce will take you through our financial results for the quarter, but first I want to speak on three topics with respect to the quarter's results: our customer franchise, our credit exposure, and our capital position. Following Bruce's remarks, I will return with some forward-looking comments.

Let me begin with our customer franchise where we continue to compete aggressively and exceed performance expectations. The strength of the E*TRADE brand was on display in the first quarter as our core Trading and Investing business proved to be resilient and growing as our customers fully participated in highly volatile markets. In the first quarter, trading activity was higher than we originally forecasted, up 8% year-over-year and down only 10% from the record levels of the prior quarter.

As stated in our annual report, our business strategy now is to focus on our core historic franchise, the investor customer, through brokerage and investor related banking products. In addition, we have adopted a back-to-basics approach to managing the business which means a disciplined and renewed focus on customer service, quality, and innovation in brokerage and investment products and services. This has produced excellent results in the first quarter.

We delivered robust growth in net new brokerage accounts and customer assets as we continued to compete effectively, especially for those individuals underserved by traditional brokerage firms. Despite a lower level of advertising spend for the quarter, we added 63,000 net new brokerage accounts. This increase was consistent with our strategic focus on investors who provide the

greatest source of revenue and profits to E*TRADE. We also attracted 3.5 billion in net new customer assets, marking our fifth straight quarter of positive asset inflows.

In keeping with our 2009 business plan, we made substantial product and service improvements this quarter, introducing new initiatives focused on making the online investing experience easier and more effective. For example, we increased customer service phone support to 24 hours a day, 7 days a week. We began the rollout of online chat to provide prospective customers with assistance in opening accounts. This has led to an improvement in the rate of completed applications.

We introduced new tools that are designed to simplify the bond and fixed income mutual fund selection and investment process and help customers make more informed fixed income investment decisions. This is a particularly important development as we have seen a substantial uptick in customer interest in this asset class over the past year.

As our trading and investing growth metrics demonstrate, focusing on our core customer franchise is the key to growing market share. As markets continue to be volatile, consumers are increasingly attracted to self-directed and online investing where they can play a stronger role in the management of their own finances. This type of trading and investing customer represents the future of the company.

Let me now turn to credit. We continue to believe E*TRADE's portfolio is further advanced through the credit cycle than the broader industry, based on the portfolio's composition and seasoning along with the proactive steps we have taken to mitigate our risk exposure. We began the process of reducing home equity lines in the first quarter of 2008. As a result, we have reduced our undrawn home equity lines from a peak of 7 billion to 2 billion, with the largest portion of that decrease occurring in the second quarter of last year. The lines that remain open have excellent credit profiles.

The improving performance we have seen in the home equity portfolio, which represents the company's greatest exposure to loan losses, demonstrates the relative advantage of our portfolio vintage and our proactive management approach. Special mention delinquencies are now 25% below year end levels and have declined for three consecutive months in a row. Based on preliminary data, this decline is continuing in April, which is almost over. Overall, this trend should translate into reduced charge-off levels in the second half of the year.

We have seen encouraging signs in our one- to four-family portfolio as well. After increasing substantially in the fourth quarter in line with the deteriorating economy, special mention delinquencies have been essentially flat this year. However, we remain cautious about the future direction of this trend until we see more months of data.

The provision for loan losses decreased \$59 million from last quarter to 454 million. Charge-offs were 334 million so the allowance for loan losses increased by \$120 million, strengthening the coverage ratios in both our one- to four-family and consumer and other portfolios. We believe this increase is prudent because market conditions remain uncertain.

Before moving on from credit, I want to highlight the very active loan modification programs that we implemented this quarter for both our home equity and one- to four-family borrowers. I should point out that E*TRADE's loan modification program goals are consistent with those of the federal government's Making Home Affordable program, in which we fully expect to participate. Our goal in this program is to target borrowers who demonstrate a willingness and capacity to meet their loan obligations and stay in their homes. To-date, we have executed approximately \$115 million in loan modifications with approximately two-thirds in home equity.

The modifications have impacted our financial statements in two key ways. First, delinquencies have been reduced. For home equity, about 30% of our special mention delinquency decline was associated with modified loans. For one- to four-family loans, the impact on our delinquencies was minimal. Second, loan loss provision has been increased. The accounting for modified loans has required us not only to expense the economic value of the concessions to our borrowers but also to increase the allowance so that it represents charge-offs expected for the full life of the modified loans rather than just four quarters. These two factors together resulted in an increase in provision of approximately \$20 million. As well, the allowance for modified loans now is equal to 74% of the outstanding balance for home equity loans and the allowance for one- to four-family loans is 23% of the outstanding balance. These numbers indicate very limited exposure to future write-downs.

This brings me to the final topic I wish to discuss with respect to the first quarter, our capital position. As you are well aware, we generated substantial capital during 2008 and it is serving us well. We began 2009 with 715 million in bank excess risk-based capital and 435 million in corporate cash, our two most important capital measures. By March 31, corporate cash remained relatively steady at 406 million and bank excess risk-based capital had declined to 451 million, which is just a bit lower than our target. The net decline of excess risk-based capital had the following components: First, loan loss provision of 454 million and second, offsetting it, 181 million of bank pre-credit cost earnings. These two items account for basically the entire decline of 264 million.

In our capital planning, we then look for additional sources of capital to keep the bank financially strong. First, we look at the amount of regulatory capital released by the shrinkage of our risk-weighted loans. Our portfolio continued to decline as expected and released \$98 million in risk-based capital this past quarter. We expect this general rate of asset reduction to continue over the balance of the year.

Next, we look to the risk-weighted value of other, that is, non-loan assets on our balance sheet, primarily our CMO book. Unfortunately, rating agency downgrades to this book required an increase in our risk-weighted capital of \$106 million, offsetting the benefit of the loan reductions. We do not expect the impact of downgrades in the next few quarters to be of this magnitude. However, given all the uncertainties in today's market environment a deviation from the norm in any single quarter should not be surprising. Finally, we look at any special transactions such as asset sales or other transactions to supplement the capital base as needed. No special transactions were closed during the first quarter.

For excess Tier 1 capital we actually had a more severe decline to 288 million, which is unexpectedly low. Because Tier 1 capital measures are not risk sensitive, we consider them less important than the risk weighted ones. But we still need to adhere to them as a regulatory matter. Interestingly, the growth rather than shrinkage of the Tier 1 total assets of E*TRADE Bank would not normally be considered a problem because that asset growth is mainly in cash. We ended the quarter with \$3.9 billion of cash in the bank, which is about 2 billion more than we normally would target. Therefore, without this higher cash balance, the excess Tier 1 capital would have been approximately \$100 million higher or \$388 million.

Please note that this cash increase was driven by the growth in our signature Complete Savings Account, known as CSA, which increased by \$1.7 billion during the quarter, despite the annual percentage yield being reduced from 3.01% at the beginning of the quarter to 1.45% at the end of the quarter. This speaks to the strength of our brand and our online technology and our bank's liquidity. We will be examining various alternatives to reduce the approximately \$2 billion of excess bank cash we are carrying, thus improving the Tier 1 ratio. For example, we have already reduced the CSA APY, or annual percentage yield, to 1.20% in April.

Our target Tier 1 ratio is at least 6.00%, one percentage point higher than the regulatory minimum for well capitalized. I will return after Bruce's remarks to talk about forward-looking items, including

some specific comments about our plans to generate capital and present good ratios to our customers and shareholders.

With that, I'll turn the call over to Bruce.

Bruce P. Nolop, Chief Financial Officer

Thank you, Don. During the quarter, we generated a net loss of 233 million or \$0.41 per share on net revenue of 497 million. The loss was due primarily to the loan loss provision of 454 million. Also, it is important to note that we do not mark our debt to market in accordance with FAS 159. If we had done so, we would have shown additional pre-tax income of 500 million, which would have made us profitable. We believe the accounting treatment we have chosen is the appropriate way to represent the company's ongoing earnings power.

Commissions, fees and service charges, principal transactions, and other revenue were down slightly from last quarter. This decline is in line with lower customer trading volumes as well as fewer trading days in the quarter. The modest decline in revenue was partially offset by a more advantageous mix that generated an increase in average commission per trade.

Our first quarter revenue also included net interest income of 279 million, which was up slightly from 274 million in the fourth quarter. This change was due to maintaining a consistent level of interest earning assets, and a slight increase in the interest income spread to 234 basis points.

As Don noted, we reduced the annual percentage yield on the Complete Savings Account by 1.56 percentage points this quarter, which was reflected in a lower average cost of funding and higher net interest income. In total, our CSA deposits grew by 1.7 billion during the quarter with approximately two-thirds of these deposits coming from brokerage customers.

Margin receivables declined from 2.8 billion to 2.4 billion in the quarter. We attribute the decline in margin receivables to de-leveraging among brokerage customers and do not expect a rapid recovery in this metric going forward.

The company further reduced expenses in the quarter, lowering our operating expenses by 27 million from the prior quarter and 60 million from the first quarter of 2008. We continue to see benefits from the head count reductions in the past year. The increase in compensation and benefits this quarter from the prior quarter was entirely related to the timing of incentive compensation accruals, with the base compensation and benefits actually being down \$2.5 million. We also made good progress in extracting savings by renegotiating arrangements with our vendors. Additionally, we saw a reduction in professional services this quarter driven by lower consulting costs and legal fees.

The other expense category declined by 9 million to 35 million, as a result of a reduction in bad debt expense and in legal reserves, partially offset by an increase in the bank's assessment for Federal Deposit Insurance. Overall, we estimate that the bank's FDIC assessment could triple in 2009 with the majority of the increase to be realized in the second quarter due to a 26 million one-time special assessment fee. A \$23 million increase in the FDIC base assessment rate will be spread over the second, third, and fourth quarters. We don't like the fact that this insurance cost is increasing. But we recognize that the increase in FDIC coverage, which covers about 95% of our customer deposits, has helped us to maintain our financial strength.

Our biggest expense in the first quarter, our loan loss provision, reflected a 120 million increase to our allowance, which brought our total allowance to 1.2 billion as of March 31. This allowance is equal to 4.9% of the gross loans receivable and compares with a ratio of 2.0% a year ago.

The growth in charge-offs this quarter is attributable to the increase in delinquencies in the second half of last year. That increase in delinquencies will also result in higher charge-offs in the second quarter of this year. Total special mention delinquencies, which we consider to be the leading indicator of future losses, were down 10% from year-end. We expect that this improvement in delinquencies will likely result in lower charge-offs during the second half of the year.

Total at risk delinquencies were up 9% during the quarter as a result of the increase in late 2008 delinquencies rolling forward. The movement during the quarter included for the one- to four-family portfolio, at risk delinquencies were up 20% and this compares with a 67% increase in our loan loss allowance for this category. For the home equity portfolio, the at risk delinquencies were down 5% and the loan loss allowance decreased by 2%. And for the consumer and other portfolio, the at risk delinquencies were up 23% and the loan loss allowance increased by 19%. I should note that the increase in delinquencies and loan loss allowance in this category was almost wholly attributable to the performance of one legacy commercial loan. In the first quarter, the allowance for loan losses as a percentage of non-performing loans, or the coverage ratio, ended the quarter at 92%. Excluding the loans that have been written down to their expected recovery value, the coverage ratio is 149%.

To summarize, special mention delinquencies declined across the portfolio. Total at risk delinquencies were somewhat mixed, with a decrease in the home equity portfolio and an increase in the one- to four-family and consumer and other portfolios. We substantially increased the one- to four-family and consumer and other reserves and slightly reduced the reserves for home equity loans.

As Don noted, the bank ended the quarter with 451 million in excess risk based capital and 288 million in excess Tier 1 capital over the well-capitalized threshold. In terms of liquidity we had 406 million of corporate cash at quarter end. The bank had 3.9 billion of cash. And we had unused federal home loan bank credit lines of 10 billion.

Finally, I would like to take you through some changes we've made to our financial reporting and key performance metrics. We have renamed our business segments, Trading and Investing and Balance Sheet Management. The Trading and Investing segment includes all customer facing businesses, including the former Retail segment and now includes our market making activities. The Balance Sheet Management segment includes the activities from our former Institutional segment other than market making. We will post restated annual and quarterly segment results on our Investor Relations website.

Our changes to key performance metrics are aimed at increasing transparency and better aligning the metrics we disclose with our strategic focus on engaging our core investor customers. These changes include providing the number of brokerage customers at each rate, which builds on our efforts to provide additional insight into the number of brokerage accounts, and revising consolidated net revenue per customer to total Trading and Investing segment income divided by the number of brokerage customers. We are also eliminating certain other metrics that have not proven to be meaningful indicators of business performance, especially in a volatile market environment.

I will now turn the call back over to Don, for his closing comments.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you, Bruce. Let me wrap up with some forward-looking comments in the same order as my introductory ones. First, the customer franchise, then credit exposure and last, our capital position. The customer franchise comes first. We are really pleased at how well it is performing. We are clearly getting our fair share of volumes and revenues versus our online competitors and gaining

share against the traditional brokerages. Our focus on the core investor customer and the basics of this business is really paying off.

However, despite high volumes in the first quarter and so far in April, we continue to be conservative in our operating outlook for the rest of 2009. We think it is important to be positioned for a cautious outlook, and if there is a surprise, it will then be on the upside. So we will continue to focus on the core business and also focus strongly on expense productivity.

The second topic is credit exposure. We clearly are seeing the first signs of positive trends in our loan portfolio, although we understand all the uncertainties associated with today's economic environment, where the word "unprecedented" is used so often. For home equity, our more seasoned vintages combined with our aggressively reduction in open lines have led to a decline in special mention delinquencies. This supports our thesis that we are more advanced through the credit cycle than the mainstream lender. We therefore are expecting declining charge-offs in the second half of the year. For one- to four-family loans, we seem to be going flat on early stage delinquencies, a very different pattern than the large increase in the fourth quarter of 2008. But we are concerned about high severity figures and thus raised our allowance for this portfolio.

And third, our capital position. We're engaged in a wide variety of capital planning and generation efforts. As stated to you previously, the management team here is committed to replacing the capital that is lost to credit positions and to keeping our position strong. We focus mainly on the bank's excess risk weighted capital and the corporate cash figure and secondarily on the bank's Tier 1 ratio.

As of March 31, we're behind where I would like us to be. We are looking at a significant range of alternatives to generate capital, large and small. The specific focus of these efforts includes: Number one, reduce the size of the assets of E*TRADE Bank, especially cash assets to improve our Tier 1 ratio. Two, generate cash capital to inject into E*TRADE Bank. For at least another quarter or two we are likely to have provisions in excess of the natural capital generation that occurs from pre credit cost earnings plus risk weighted asset reduction, which together we estimate roughly will be 200 to \$250 million per quarter. Therefore to replenish the bank's capital cushion, we will need to pursue financing alternatives, including equity issuances through public or private transactions, as well as asset sales or other special transactions. We're also continuing to pursue TARP financing. Number three, reduce the high debt burden and leverage of the parent company. We began to work at this last year via debt for equity exchanges. We will need to do substantially more, although because of the pay-in-kind feature on most of the debt, we have some flexibility on timing to do so. Our initial and rough target is to reduce interest expense, now running at about \$350 million per year, to about \$150 million per year. As we consider these capital generating options, we're working closely with our largest bond and equity holder, Citadel Investment Group, as a potential partner.

We're executing on our capital plans while in constant dialogue with our primary banking regulator, the Office of Thrift Supervision. They have advised us we should proceed with our capital plans, both with respect to the bank and to the parent, quickly. In executing upon these capital requirements, just as demonstrated last year, we are very conscious that some alternatives are more shareholder efficient than others. We will continue to have this priority going forward although the amounts required will undoubtedly generate substantial dilution.

Before we open the call to questions, please note that we've said everything we can say regarding our interactions with our regulators and our application to the U.S. Treasury for the TARP Capital Purchase Program. We have been advised to maintain a high degree of confidentiality in dealing with the government, with laws and regulations supporting the need for confidentiality with respect to some topics, and thank you in advance for respecting this requirement.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Howard Chen with Credit Suisse.

<Q – Howard Chen>: Good afternoon everyone.

<A – Donald Layton>: Good afternoon.

<Q – Howard Chen>: Thanks for taking my question. Don, first question, what level of capital are you comfortable with? And what specific capital and leverage levels are you targeting to, to get everyone comfortable?

<A – Donald Layton>: We are willing to talk about certain targets we have which we run by internally and it's buried in the text. I'll repeat them. We are looking for the bank to have excess risk weighted assets of \$500 million. We think that's a good cushion. We're looking to have the Tier 1 bank ratio target of 6% at least. And parent cash, we'd like to have the cash to have interest expense, cash interest expense needs and other net needs for the next 12 to 24 months on hand at all times.

<Q – Howard Chen>: Okay. And then my follow-up, are you anticipating any potential deposit declines given the yield adjustments you spoke to and if so, maybe more broadly could you talk about your strategy for growth or composition of the liability side of the balance sheet?

<A – Donald Layton>: Yeah. First of all I hope everyone notes, the reality is that E*TRADE was among the higher payers for general savings products last year when there was a great deal of stress in the markets and when we left the year at 3.01%, that was among the higher rates among the major competitors. Our liquidity position and posture is so good, we ended the quarter with what, 1.45% which is no longer a premium rate. It's just a normal competitive rate. Despite that, actually, our customer deposits both in the – our customer deposits excluding suite deposits actually went up, showing the strength of our brand.

Basically, we are looking at the entire liability side of the balance sheet at this point which includes our customer deposits as well as the repo book and as well as the Home Loan Bank book for different ways to reduce our liability side. We are examining many and we'll take action, but we have nothing specific to announce today other than the mention that we already reduced the CSA rate during the month of April to 1.20%.

<Q – Howard Chen>: Okay, thanks. And then final one for me Don, on the collateralized mortgage obligations, could you please let us know where that exposure is marked, what the unrealized loss position was of – as of March 31 and if there was any impact broadly from the new FASB rules?

<A – Donald Layton>: I'm going to ask one of my colleagues to give us the number for that. Bob, are you set to do that? Yeah, he's just looking up the number. Just so you know, impairments during the quarter to the CMO portfolio were \$18 million. They are part of a line item where we actually had the securities gain, so you can't see it because it's netted in there, we actually had a positive net.

<A>: As of the end of the first quarter, the CMO book totaled 837 million of which 516 million was AAA. 83 million was between AA and BBB and 237 million was below investment grade.

<A>: Do you have the mark to market?

<Q – Howard Chen>: Okay. And then just the impact from FASB rules?

<A – Donald Layton>: -- just a minute. Just – he'll get it for you....

<Q – Howard Chen>: Thanks.

<A – Donald Layton>: In a second.

<A>: Yeah, sure. This is Mathias The mark-to-market at March 31 was a loss of about 300 million.

<A – Donald Layton>: Right. Okay? All right.

<Q – Howard Chen>: And then impact from the FASB rules, just that last part.

<A – Donald Layton>: We have taken nothing in the first quarter. We expect it to be a small amount in the second quarter.

<Q – Howard Chen>: Okay.

<A – Donald Layton>: All right? That was four – your one question was four. Okay. Next question.

Operator: Our next question comes from the line of Mike Vinciguerra with BMO Capital Markets.

<Q – Michael Vinciguerra>: Thank you. Don, back to your point on reducing the size of the balance sheet. I'm just looking at the composition of your assets on the interest earning side and MBS for instance were up about a billion dollars quarter end to quarter end and I'm just curious why that actually went up instead of say paying down the repo or the FHLB advances to reduce your cash side of the balance sheet?

<A – Donald Layton>: Yeah, the repo and Home Loan Bank books have associated with them repayment costs. Let me use the Home Loan Bank as the easiest example. Instead of just repaying, which obviously we'd do if it were costless, the Home Loan Bank book at this point consists of fixed term, fixed rate advances all done in the past when rates were higher. And we would owe them an economic prepayment penalty, which makes them -- what I refer to as sticky, so it's a little bit hard to prepay. There's a similar concept in the repo book. So we are examining alternatives, but that's what makes it a little hard to do.

<Q – Michael Vinciguerra>: So you essentially chose to put some of that excess cash you had into MBS, because you weren't able to pay down the longer term debt?

<A – Donald Layton>: Right. We are liability bound if you will, i.e., our adjusting liquidity is marketable securities and cash investments. The opposite of a purchase fund bank.

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

<Q – Richard Repetto>: Hi, Don.

<A – Donald Layton>: Hi, Rich.

<Q – Richard Repetto>: I guess the first question is when you went through the capital position, I think I just missed this. But there was 150 million downstreamed besides the provision and the pre provision, pre-tax bank earnings. So the 150 million downstream, that was eaten up, or eaten into by -was it the risk based downgrades, I'm just trying to get...?

<A – Donald Layton>: No, the 150 million was subsequent to the end of the quarter. So all those other capital ratios I gave you were before the 150 million got moved down. Obviously, the ratios are higher now.

<Q – Richard Repetto>: Okay. So, all right. Okay. And then I guess the -- my follow-up question would be just, you've laid out in the release about raising more capital and the need to do that. And you also talked about this -- still the capital use -- I think you mentioned 200 to 250 million per quarter. I guess, I'm trying to get around to how much capital do you need to raise?

<A – Donald Layton>: Basically, I'll give you sort of the rules we're using and you can do your own estimate, based on your estimate of what future events will be.

<Q – Richard Repetto>: Fine.

<A – Donald Layton>: The bank capital, and I'll focus on risk weighted as what we consider the most important, basically if provision is less than the organic capital growth, which is that 200 – 250 million estimate, which comes from earnings in the business and the reduction in risk weighted assets, which we think on average will be some number, if the provision is less than the bank has capital ratios that naturally go up and doesn't need anything from the parent any more. So to the degree the provisions are generally higher than the range of 200 – 250 over time each quarter, more capital needs to be injected into the bank.

This is math I think I started explaining about the third quarter of last year. Because the economy went into a larger downturn in the fourth quarter, extending the period before we have seen this downturn in our sub-standard – or delinquencies, the number we need to replace and reinstall our capital buffers, if you will, our cushions which we had nice ones of at the end of the year, based upon on our large capital raising last year mainly being subsidiary sales.

And so that's what we're dealing with. We want to have our capital cushion and risk weighted be back at 500. It was only a little bit less than that at the end of the first quarter, I believe it was 410. And so that will drive the need for some cash capital. That is separate of course from the need to shrink the balance sheet in the bank for Tier 1 and that is separate from the need to take the parent which has loads of capital, but it's in the form of debt rather than equity, and we need to get it converted.

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

<Q – Roger Freeman>: Hi, good evening. I wanted to come back to some commentary, I think you made last quarter about discussions with the regulators basically suggesting that if you were to get TARP, you would be willing to go into more of a lending mode again. And as I look at how you've renamed your segments, Balance Sheet Management which houses the bank, I mean, to me that's another word for workout, which is about as far from sort of lending as I can think. And so I guess, does that make your -- I know you don't want to talk about TARP, but that seems to me like it makes your case a little more difficult?

<A – Donald Layton>: No, I think you're reading the wrong thing into Balance Sheet Management. That is a classic bank treasury function. All the customer assets and liabilities are transfer priced at market prices into the Balance Sheet Management area. And then with limits as to liquidity and interest rate risk, they then look to lay off the risk and manage the funds. Every bank has this function, usually referred to as bank treasury or some phrase like that. It is not a workout area, although it does handle -- it does own, because they were professional investments overwhelmingly, the mortgage loans, so it is true that the losses are in their part of the P&L.

But even, five years from now when those losses are just a bad memory, you will still have the Balance Sheet Management segment doing classic bank treasury activity with liquidity and marketable investment securities and things like that.

<Q – Roger Freeman>: Okay. And then I guess, I mean, the only other thing, you seem to be the only institution I can think of that's been told to raise capital and given no, you know, help in doing so, even Colonial was told to raise capital, but that they would get TARP alongside that. I am assuming that since you haven't announced that, that that's not part of the deal?

<A – Donald Layton>: You know, we've...

<Q – Roger Freeman>: It seems like you're put in a really tough spot there?

<A – Donald Layton>: I can't speak for other banks, TARP to us would be nice, but we think we are in a fine position to raise capital without them.

<Q – Roger Freeman>: Okay. Thanks.

Operator: Your final question comes from the line of Matt Snowling with FBR Capital Markets.

<Q – Matt Snowling>: Yeah, good afternoon.

<A – Donald Layton>: Hi, Matt.

<Q – Matt Snowling>: Hi. Can you discuss the time line the regulators have given you to raise that capital?

<A – Donald Layton>: The only thing we're going to say is stick by our statement that they wish us to do so quickly.

<Q – Matt Snowling>: Okay. And then maybe, can you at least give us what your risk weighted assets were as of the end of the quarter and regulatory capital levels?

<A – Donald Layton>: Bruce, do you have that?

<A – Bruce Nolop>: Yeah --

<A – Donald Layton>: And we're going to look at risk weighted assets probably just for the bank, which is what we look at.

<A>: Yeah, this is Mathias again. Total would be 2.9 billion in total capital for the risk weighted assets, that the number you're looking for? Where Don is quoting the excess of 451 million.

<Q – Matt Snowling>: And that's before the \$150 million?

<A>: Correct, those are the March 31 numbers, and the 150 was done in April.

<Q – Matt Snowling>: Then I guess we can back into risk weighted assets?

<A>: Yeah you can obviously divide by the percentage.

<A>: He wanted the assets, not the [inaudible]

<A>: Oh yeah. The minimum is 10%, so [inaudible].

<A>: Right.

<Q – Matt Snowling>: Okay. And thank you.

Operator: That concludes the question-and-answer portion of today's call. I will now turn the call back to Don Layton for some closing comments.

Donald H. Layton, Chairman and Chief Executive Officer

Thank you. I want to repeat basically the three key points that I think describe what's going on here at E*TRADE. The business, the customer franchise is pretty much hitting on all eight cylinders. Competing fully, getting its fair share against the other online brokerages and winning share against the traditional ones. We think it's doing wonderfully and it's got a great future ahead. Number two, credit – I'm not sure if we're the only larger financial institution that is seeing a downturn in provisions and significant turns in credit. But if we're not, we're close to being one of the only ones.

Particularly of note, the 25% decline in delinquencies, the 30 to 89 day delinquencies in home equity loans, that for one, for three months is a big number. It's not a per annum rate. It's the straight rate. So we're seeing credit and I hope everyone appreciates then that the range of expectations of credit losses which people can have, where we're highly uncertain, should be narrowing down as you can see the pattern and the turn, in addition first mortgages of course have gone basically flat. A little more uncertain there. But flat, it's still a very good result after the fourth quarter. In other words there's some notion of light at the end of the tunnel here with all the uncertainties there are.

And third, capital, in reality, I don't think we're saying anything other than the math and the things we talked about before. We clearly need to reduce the leverage of the parent which we started doing a year ago. We clearly need to have good capital cushions at the bank. We loaded up a lot in 2008. But the economy doing so much worse where people were talking about depression and such in the fourth quarter, it put us in a place where we need to replenish those cushions to a certain degree. We've given you our targets so you can get a notion of what we would be aiming at. And that's the basic story here. And thank you for listening, good evening.

Operator: We thank you for your participation in today's E*TRADE Financial Corporation first quarter 2009 business update conference call and ask that you please disconnect your lines, as well as your webcast browser. Thank you.

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