UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number 1-11921

E*TRADE Financial Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-2844166**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1271 Avenue of the Americas, 14th Floor, New York, New York 10020
(Address of principal executive offices and Zip Code)
(646) 521-4300
(Registrant's telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒		Accelerated filer	☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)		Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At June 30, 2014, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $4.4 billion (based upon the closing price per share of the registrant's common stock as reported by the NASDAQ Global Select Market on that date). Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliates' status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of February 19, 2015, there were 289,824,138 shares of common stock outstanding.

Documents Incorporated by Reference: Certain portions of the definitive Proxy Statement related to the Company's 2015 Annual Meeting of Stockholders, to be filed hereafter (incorporated into Part III hereof).

E*TRADE FINANCIAL CORPORATION
FORM 10-K ANNUAL REPORT
For the Year Ended December 31, 2014
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Unless otherwise indicated, references to "the Company," "we," "us," "our" and "E*TRADE" mean E*TRADE Financial Corporation and its subsidiaries.

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PART I

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. These statements relate to our future plans, objectives, expectations and intentions based on certain assumptions and include any statement that is not historical in nature. These statements may be identified by the use of words such as "assume," "expect," "believe," "may," "will," "should," "anticipate," "intend," "plan," "estimate," "continue" and similar expressions. We caution that actual results could differ materially from those discussed in these forward-looking statements. Important factors that could contribute to our actual results differing materially from any forward-looking statements include, but are not limited to, those discussed under Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Part I. Item 1A. Risk Factors of this Form 10-K; and elsewhere in this report and in other reports we file with the SEC. By their nature forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed or implied in this report or any of our prior communications. The forward-looking statements contained in this report reflect our expectations only as of the date of this report. You should not place undue reliance on forward-looking statements, as we do not undertake to update or revise forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made, except as required by law.

ITEM 1. BUSINESS

OVERVIEW

E*TRADE Financial Corporation is a financial services company that provides brokerage and related products and services primarily to individual retail investors under the brand "E*TRADE Financial." We also provide investor-focused banking products, primarily sweep deposits, to retail investors. Our competitive strategy is to attract and retain customers by emphasizing a hybrid model of digital and technology-intensive channels, backed by professional support and guidance.

Our corporate offices are located at 1271 Avenue of the Americas, 14th Floor, New York, New York 10020. We were incorporated in California in 1982 and reincorporated in Delaware in July 1996. We had approximately 3,200 employees at December 31, 2014. We operate directly and through numerous subsidiaries, many of which are overseen by governmental and self-regulatory organizations. Our most significant subsidiaries are described below:

- E*TRADE Securities LLC is a registered broker-dealer and is the primary provider of brokerage products and services to our customers;
- E*TRADE Clearing LLC is the clearing firm for our brokerage subsidiaries and its main purpose is to clear and settle securities transactions for customers of E*TRADE Securities LLC;
- E*TRADE Bank is a federally chartered savings bank utilized by E*TRADE's broker-dealers to maximize the value of customer deposits. It provides our customers with Federal Deposit Insurance Corporation ("FDIC") insurance on a certain amount of customer deposits and provides other banking products to our customers; and
- E*TRADE Financial Corporate Services is an operating subsidiary of the parent company and is the provider of software and services for managing equity compensation plans to our corporate customers.

Our two primary U.S. broker-dealers, E*TRADE Clearing LLC and E*TRADE Securities LLC, became operating subsidiaries of E*TRADE Bank in 2007 and 2009, respectively. As a result, the vast majority of our revenue-generating operations resided within E*TRADE Bank and its subsidiaries, making capital distributions to our parent company reliant on approvals from our banking regulators. We recently received regulatory approval to move both E*TRADE Clearing LLC and E*TRADE Securities LLC out from under E*TRADE Bank. This revised organizational structure provides increased capital flexibility as it enables us to dividend excess regulatory capital at our broker-dealers to the parent company. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and we plan to move E*TRADE Clearing LLC later in 2015.

A complete list of our subsidiaries at December 31, 2014 can be found in Exhibit 21.1.

We provide services to customers through our website www.etrade.com, our desktop software E*TRADE Pro, and our mobile applications. We also provide services through our network of customer service representatives and financial consultants, over the phone or in person through our 30 E*TRADE branches. Information on our website is not a part of this report.

STRATEGY

Our business strategy is centered on two core objectives: accelerating the growth of our core brokerage business to improve market share, and strengthening our overall financial and franchise position.

Accelerate Growth of Core Brokerage Business

- *Capitalize on secular growth within the direct brokerage industry.*

  The direct brokerage industry is growing at a faster rate than the traditional brokerage industry. We are focused on capitalizing on this growth by ensuring our customers' trading and investing needs are met through our direct relationships.
- *Enhance digital and offline customer experience.*

  We are focused on maintaining our competitive position in trading, margin lending and cash management, while expanding our customer share of wallet in retirement, investing and savings. Through these offerings, we aim to continue acquiring new customers while deepening engagement with both new and existing ones.
- *Capitalize on value of corporate services business.*

  This includes leveraging our industry-leading position to improve client acquisition, and bolstering awareness among plan participants of our full suite of offerings. This channel is a strategically important driver of brokerage account growth for us.
- *Maximize value of deposits through the Company's bank.*

  Our brokerage business generates a significant amount of deposits, which we monetize through the bank by investing primarily in low-risk, agency mortgage-backed securities.

Strengthen Overall Financial and Franchise Position

- *Manage down legacy investments and mitigate credit losses.*

  We continue to manage down the size and risks associated with our legacy loan portfolio, while mitigating credit losses where possible.
- *Continue to execute on our capital plan.*

  Our capital plan was laid out in 2012 with a key goal of distributing capital from E*TRADE Bank to the parent company. We are now focused on utilizing excess capital created through earnings and by achieving lower capital requirements at E*TRADE Bank, while continuing to enhance our enterprise risk management culture and capabilities.

TECHNOLOGY

Our success and ability to execute on our strategy is largely dependent upon the continued development of our technologies. We believe our focus on being a technological leader in the financial services industry enhances our competitive position. This focus allows us to deploy a secure, scalable, and reliable technology and back office platform that promotes innovative product development and delivery. We continued to invest in these critical platforms in 2014, leveraging the latest technologies to drive significant efficiencies as well as enhancing our service and operational support capabilities. Our sophisticated and proprietary technology platform also enabled us to deliver many upgrades to our retirement, investing and savings customer products and tools across all digital channels. Significant updates in 2014 include:

- revamped site navigation;
- new application for iOS 8, with first-to-market technologies such as finger print ID log in;
- first-of-its-kind browser trading web application, allowing customers to research assets and place trades without leaving the page they are surfing;
- enhanced fixed income solutions center;
- enhanced online robo-advisor tool; and
- updates to E*TRADE Pro, including log in process and technical indicators.

PRODUCTS AND SERVICES

We assess the performance of our business based on our two core segments: trading and investing, including corporate services, and balance sheet management. With respect to trading and investing, the factors used to judge our performance include profitability, customer activity and financial metrics, along with the competitiveness of our overall value proposition to the customer and our customers' engagement with E*TRADE. We assess the performance of our balance sheet management segment using metrics such as regulatory capital ratios, loan delinquencies, allowance for loan losses, enterprise net interest spread and average enterprise interest-earning assets. Costs associated with certain functions that are centrally-managed are separately reported in a corporate/other category.

Trading and Investing

Our trading and investing segment offers a comprehensive suite of financial products and services to individual retail investors. The most significant of these products and services are described below:

Trading Products and Services

- our best-in-class customer website, www.etrade.com;
- automated order placement and execution of U.S. equities, futures, options, exchange-traded funds, forex and bond orders;
- E*TRADE Mobile, which allows customers to securely trade, monitor real-time investment, market and account information, access educational videos and other content, pay bills and transfer funds between accounts via iPhone®, iPad®, Android™ phones and tablets, Windows® Phone or Kindle Fire;
- E*TRADE Pro, our desktop trading software for qualified active traders, which provides customers with customizable trading technology, continuous market visibility, news and information, plus live streaming news via CNBC TV;
- margin accounts allowing customers to borrow against their securities, complete with margin analysis tools to help customers manage positions and risk;
- access to 77 international markets with American depositary receipts ("ADRs"), exchange-traded funds ("ETFs"), and mutual funds, plus online equity trading in local currencies in Canada, France, Germany, Hong Kong, Japan and the United Kingdom;
- research and investing idea generation tools that assist customers with identifying investment opportunities including fundamental and technical research, consensus ratings, and market commentary from Morningstar, Dreyfus and BondDesk Group;
- advice from our financial consultants at our 30 branches across the country and via phone and email;
- no annual fee and no minimum individual retirement accounts, along with Rollover Specialists to guide customers through the rollover process;
- retirement center which offers easy-to-use tools, calculators, education, retirement solutions, and access to Chartered Retirement Planning Counselors℠ who can provide customers with one-on-one portfolio evaluations and personalized plans;
- OneStop Rollover – a simplified, online rollover program that enables investors to invest their 401(k) savings from a previous employer into a professionally-managed portfolio;
- access to all ETFs sold, including over 100 commission-free ETFs from leading independent providers, and over 7,300 non-proprietary mutual funds;
- Managed Investment Portfolio advisory services from an affiliated registered investment advisor, with an investment of $25,000 or more, which provides one-on-one professional portfolio management;
- Unified Managed Account advisory services from an affiliated registered investment advisor, with an investment of $250,000 or more, which provides customers the opportunity to work with a dedicated investment professional to obtain a comprehensive, integrated approach to asset allocation, investments, portfolio rebalancing and tax management;
- comprehensive Online Portfolio Advisor to help customers identify the right asset allocation and provide a range of solutions including a one-time investment portfolio or a managed investment account;
- fixed income tools in our Fixed Income Solutions Center aimed at helping customers identify, evaluate and implement fixed income investment strategies;
- access to our redesigned investor education center with over 450 individual educational articles and videos from over 20 independent sources and E*TRADE's financial experts, along with live events, webcasts, web seminars, tutorials, demos, and more than 50 courses; and

- FDIC insured deposit accounts, including checking, savings and money market accounts, including those that transfer funds to and from customer brokerage accounts.

Corporate Services

We offer software and services for managing equity compensation plans for corporate customers. Our Equity Edge Online™ platform facilitates the management of employee stock option plans, employee stock purchase plans and restricted stock plans, including necessary accounting and reporting functions. This product serves as an important introductory channel to E*TRADE for our corporate services account holders, with our goal being that these individuals will also use our brokerage products and services. Equity Edge Online™ recordkeeping and reporting was rated #1 in overall loyalty and satisfaction for the third year in a row by Group Five, an independent consulting and research firm, in its 2014 Stock Plan Administration Study Industry Report.

Balance Sheet Management

The balance sheet management segment serves as a means to maximize the value of our customer deposits, focusing on asset allocation and managing credit, liquidity and interest rate risks. The balance sheet management segment manages our legacy loan portfolio which has been in runoff mode since 2008, as well as agency mortgage-backed securities, and other investments. Funding sources consist of customer payables and deposits which originate in the trading and investing segment, as well as wholesale funding, the majority of which are legacy obligations that are in run-off mode.

For statistical information regarding products and services, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). Three years of segment financial performance and data can be found in the MD&A and in Note 22—Segment Information of Item 8. Financial Statements and Supplementary Data.

SALES AND CUSTOMER SERVICE

We believe providing superior sales and customer service is fundamental to our business. We strive to maintain a high standard of customer service by staffing the customer support team with appropriately trained personnel who are equipped to handle customer inquiries in a prompt yet thorough manner. All customer-facing employees are Series 7 registered. Our customer service representatives utilize our proprietary web-based platform to provide customers with answers to their inquiries. We also have specialized customer service programs that are tailored to the needs of each customer group.

We provide sales and customer support through the following channels of our registered broker-dealer and investment advisory subsidiaries:

- *Branches*—we have 30 branches located across the U.S. where retail investors can get face-to-face support and guidance. Financial consultants are available on-site to help customers assess their current asset allocation and develop plans to help them achieve their investment goals. Customers can also contact our financial consultants via phone or e-mail if they cannot visit the branches.
- *Online*—we have an Online Advisor tool available that provides asset allocation and a range of investment solutions that can be managed online or through a dedicated investment professional. We also have an Online Service Center where customers can request services on their accounts and obtain answers to frequently asked questions. The online service center also provides customers with the ability to send a secure message and/or engage in Live Chat with one of our customer service representatives. In addition, we offer our Investor Education Center, providing customers with access to a variety of live and on-demand courses.
- *Telephonic*—we have a toll free number that connects customers to the appropriate department where a financial consultant or Series 7 licensed customer service representative can assist with their inquiry.

COMPETITION

The online financial services market continues to evolve and remains highly competitive. Our trading and investing segment competes with full commission brokerage firms, discount brokerage firms, online brokerage firms, personal finance start-ups, Internet banks and traditional "brick & mortar" retail banks and thrifts. Some of these competitors provide Internet trading and banking services, investment advisor services, touchtone telephone and voice response banking services, electronic bill payment services and a host of other financial products. Our balance sheet management segment competes with all users of market liquidity, including the types of competitors listed above, in order to obtain the least expensive source of funding.

The financial services industry has become more concentrated as companies involved in a broad range of financial services have been acquired, merged or have declared bankruptcy. We believe we can continue to attract and retain retail customers by providing them with easy-to-use and innovative financial products and services.

We also face competition in attracting and retaining qualified employees. Our ability to compete effectively in financial services will depend upon our ability to attract new employees, and retain and motivate our existing employees while efficiently managing compensation-related costs.

REGULATION

Our business is subject to regulation by U.S. federal and state regulatory agencies and various non-U.S. governmental agencies and self-regulatory organizations, including, for example, central banks and securities exchanges, each of which has been charged with the protection of the financial markets and the protection of the interests of those participating in those markets. We have been, along with other large financial institutions, subject to heightened expectations from our regulators with respect to compliance with laws and regulations, including our controls and business processes, which we expect will continue. We also anticipate that regulators will continue to intensify their supervision through the exam process and increase their enforcement of regulations across the industry. The regulators' heightened expectations and intense supervision have and will continue to increase our costs and may limit our ability to pursue certain business opportunities.

Our primary regulators in the U.S. include, among others, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), The NASDAQ Stock Market ("NASDAQ"), the Commodity Futures Trading Commission ("CFTC"), the National Futures Association ("NFA"), the FDIC, the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Municipal Securities Rulemaking Board, the Office of the Comptroller of the Currency ("OCC") and the Consumer Financial Protection Bureau ("CFPB").

Both our brokerage and banking entities are subject to the Bank Secrecy Act, as amended by the USA PATRIOT ACT of 2001 ("BSA/USA PATRIOT Act"), which requires financial institutions to develop anti-money laundering ("AML") programs to assist in the prevention and detection of money laundering and combating terrorism. In order to comply with the BSA/USA PATRIOT Act, we have an AML department that is responsible for developing and implementing our enterprise-wide programs for compliance with the various anti-money laundering and counter-terrorist financing laws and regulations. Our brokerage and banking entities are also subject to U.S. sanctions laws administered by the Office of Foreign Assets Control and we have policies and procedures in place to comply with these laws.

For customer privacy and information security, under the rules of the Gramm-Leach-Bliley Act of 1999, our brokerage and banking entities are required to disclose their privacy policies and practices related to sharing customer information with affiliates and non-affiliates. These rules also give customers the ability to "opt out" of having non-public information disclosed to third parties or receiving marketing solicitations from affiliates and non-affiliates based on non-public information received from our brokerage and banking entities.

Brokerage Regulation

Our broker-dealers are registered with the SEC and are subject to regulation by the SEC and by self-regulatory organizations, such as FINRA and the securities exchanges of which each is a member, as well as various state regulators. In addition, E*TRADE Clearing LLC and E*TRADE Securities LLC are registered with the CFTC as a futures commission merchant and introducing broker, respectively, and are both members of the NFA. Such regulation covers various aspects of these businesses, including for example, client protection, net capital requirements, required books and records, safekeeping of funds and securities, trading, prohibited transactions, public offerings, margin lending, customer qualifications for margin and options transactions, registration of personnel and transactions with affiliates. Our international broker-dealers are regulated by their respective local regulators such as the United Kingdom Financial Conduct Authority and Hong Kong Securities & Futures Commission.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") includes various provisions that affect the regulation of broker-dealers, futures commission merchants and introducing brokers. For example, the SEC is authorized to adopt a fiduciary duty standard applicable to broker-dealers when providing personalized investment advice about securities to retail customers. To date, the SEC has not proposed any rulemaking under this authority. The U.S. Department of Labor is considering revisions to regulations under the Employee Retirement Income Security Act of 1974 that could subject broker-dealers to a fiduciary duty and prohibit specified transactions for a wider range of customer interactions. These developments may impact the manner in which affected businesses are conducted, decrease profitability and increase potential liabilities.

Banking Regulation

Our banking entities are subject to regulation, supervision and examination for safety and soundness by the Federal Reserve, OCC, FDIC and CFPB for compliance with federal consumer finance laws. Such regulation covers all aspects of the banking business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, transactions with affiliates and conduct and qualifications of personnel.

Each of our banking entities has deposits insured by the FDIC and pays quarterly assessments to the Deposit Insurance Fund ("DIF"), maintained by the FDIC, to pay for this insurance coverage. The Dodd-Frank Act made permanent the general $250,000 deposit insurance limit for insured deposits. The assessment base for insured depository institutions is the average consolidated total assets minus average tangible equity. The FDIC's risk-based methodology for calculating the assessment rate for E*TRADE Bank and other large and highly complex depository institutions, finalized in 2011, utilizes a scorecard method based on a number of factors, including the institution’s regulatory ratings, asset quality and brokered deposits. In October 2012, the FDIC amended its 2011 rule to revise the definition of certain higher risk assets used to calculate the quarterly insurance assessment beginning on April 1, 2013. In November 2014, the FDIC further amended its assessment rule to reflect changes in the Basel III regulatory capital rules that began to be phased in as of January 1, 2015. The FDIC will continue to assess the changes to the assessment rates at least annually.

Financial Regulatory Reform Legislation

The Dodd-Frank Act, which was signed into law on July 21, 2010, includes comprehensive changes to the financial services industry. For example, the Dodd-Frank Act requires all companies, including savings and loan holding companies, that directly or indirectly control an insured depository institution to serve as a source of strength for the institution.

In addition, the Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations. Although the majority of the required rules and regulations have now been finalized, there remain many still in proposed form or yet to be proposed, the substance and impact of which may not fully be known for months or years. The implementation of capital requirements applicable to the parent company will, however, impact us, as the parent company was not previously subject to regulatory capital requirements. These requirements became effective for us on January 1, 2015, as further explained below.

Basel III Framework

The risk-based capital guidelines that applied to E*TRADE Bank as of December 31, 2014 were based upon the 1988 capital accords of the Basel Committee on Banking Supervision ("BCBS"), a committee of central banks and bank supervisors, as implemented by the U.S. Federal banking agencies, including the OCC, commonly known as Basel I. The Basel II framework was finalized by U.S. banking agencies in 2007; however, E*TRADE Bank did not meet the threshold requirements for Basel II and, therefore, has never been subject to the requirements of Basel II. In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the BCBS, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital and liquidity requirements, known as the Basel III framework. The final Basel III framework was released in December 2010, subject to individual adoption by the U.S. and other member nations.

In July 2013, the U.S. Federal banking agencies finalized a rule to implement Basel III in the U.S., which provides the framework for the calculation of a banking organization’s regulatory capital and risk-weighted assets. The Basel III rule establishes Common Equity Tier 1 capital as a new tier of capital, raises the minimum thresholds for required capital, increases minimum required risk-based capital ratios, narrows the eligibility criteria for regulatory capital instruments, provides for new regulatory capital deductions and adjustments, and modifies methods for calculating risk-weighted assets (the denominator of risk-based capital ratios) by, among other things, strengthening counterparty credit risk capital requirements. The Basel III final rule also introduces a capital conservation buffer that limits a banking organization’s ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a Common Equity Tier 1 capital conservation buffer of more than 2.5%, on a fully phased-in basis, of total risk-weighted assets above each of the following minimum risk-based capital ratio requirements: Common Equity Tier 1 (4.5%), Tier 1 (6.0%), and total risk-based capital (8.0%). This requirement will begin to take effect on January 1, 2016, and will be fully phased in by 2019.

The rule became effective on January 1, 2014, for certain large banking organizations, and January 1, 2015, for most other U.S. banking organizations, including the Company and E*TRADE Bank. The fully phased-in Basel III capital standards will become effective January 1, 2019 for the Company and E*TRADE Bank. We expect to remain compliant with the Basel III framework as it is phased in.

Several elements of the final rule are likely to have a meaningful impact to us. Margin receivables will qualify for 0% risk-weighting, and we believe that we will be able to include a larger portion of our deferred tax assets in regulatory capital, both having a favorable impact on our current capital ratios. A portion of this benefit will be offset as we phase out trust preferred securities from the parent company's capital. In addition, the final rule gives the option for a one-time permanent election for the inclusion or exclusion in the calculation of Common Equity Tier 1 capital of unrealized gains (losses) on all available-for-sale debt securities; we currently intend to elect to exclude unrealized gains (losses).

On September 9, 2014, U.S. Federal banking agencies issued an inter-agency final rule that implements a quantitative liquidity coverage ratio ("LCR") that is generally consistent with, and in some respects stricter than, the international LCR standard established by the BCBS. The purpose of the LCR is to require certain financial institutions to hold minimum amounts of high-quality, liquid assets against its projected net cash outflows, over a 30-day period of stressed conditions. While the LCR does not apply to companies with less than $50 billion in assets, including the Company, we believe we would be compliant with the LCR standards set out in the final rule, as they apply to larger institutions.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the appropriate federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards. While these regulations apply only to banks, such as E*TRADE Bank, the Federal Reserve is authorized to take appropriate action against the parent bank holding company, such as E*TRADE Financial Corporation, based on the undercapitalized status of any bank subsidiary. In certain instances, we would be required to guarantee the performance of the capital restoration plan if our bank subsidiary were undercapitalized.

Derivatives

Title VII of the Dodd-Frank Act subjects or potentially could subject derivatives that we enter into for hedging, risk management and other purposes to a comprehensive regulatory regime. This regime requires central clearing and execution on designated markets or execution facilities for certain standardized derivatives and imposes or will impose margin, documentation, trade reporting and other new requirements. We are currently in compliance with these requirements as they apply to our activities, and they did not have a material impact on our operations.

Volcker Rule

On December 10, 2013, the Federal Reserve, OCC, FDIC, SEC and CFTC, issued final rules to implement section 619 of the Dodd-Frank Act (these rules collectively known as the "Volcker Rule"). The Volcker Rule imposes prohibitions and restrictions on the ability of banking entities and nonbank financial companies to engage in proprietary trading, and to have certain interests in, or relationships with, hedge funds or private equity funds ("Covered Funds"). Since the adoption of the Volcker Rule, there have been questions in the industry as to whether collateralized debt obligations backed by trust preferred securities ("TruPS CDOs") constituted Covered Funds under the Rule and on January 14, 2014, the agencies that adopted the Volcker Rule approved an interim final rule to permit banking entities to retain interests in TruPS CDOs that met certain conditions, including (i) that the TruPS CDO be established before May 19, 2010; (ii) that the banking entity's interest in the TruPS CDO be acquired on or before December 10, 2013; and (iii) that the TruPS CDO be invested in "qualifying" collateral. We have assessed the impact of the Volcker Rule as it relates to the trust preferred securities that were issued by ETB Holdings, Inc. and have determined that the trust preferred securities are exempt under the provisions of the interim final rule. On December 18, 2014, the Federal Reserve issued an order extending the Volcker Rule's conformance period until July 21, 2016, for investments in and relationships with Covered Funds and certain foreign funds that were in place on or prior to December 31, 2013. Subject to these extensions, we have until July 2015 to comply with other provisions of the Volcker Rule. We have assessed the impact of full implementation of the Volcker Rule and expect to be in full compliance by July 2015, with minimal impact on our operations.

Stress Testing

On October 9, 2012, federal banking regulators issued final rules implementing provisions of the Dodd-Frank Act that require banking organizations with total consolidated assets of more than $10 billion but less than $50 billion to conduct annual company-run stress tests, report the results to their primary federal regulator and the Federal Reserve and publish a summary of the results. Under the rules, stress tests must be conducted using certain scenarios (baseline, adverse and severely adverse), which the Federal Reserve will publish by November 15 of each year.

Under the OCC stress test regulations, E*TRADE Bank is required to conduct stress-testing using the prescribed stress-testing methodologies. The final OCC regulations required E*TRADE Bank to conduct its first stress test using financial statement data as of September 30, 2013, and to submit the results prior to March 31, 2014. E*TRADE Bank submitted the results of its first stress test prior to March 31, 2014, as required. For banking organizations with total consolidated assets of more than $10 billion but less than $50 billion, including E*TRADE Bank, the results of the first official test will not be public information. E*TRADE Bank will be required to publish summary results of its annual stress test between June 15 and June 30 each year, beginning with its second annual stress test in 2015.

The OCC analyzes and provides feedback on the quality of E*TRADE Bank's stress test process and results. In the second quarter of 2014 we received feedback from the OCC on our first official stress test submission that we remained well above the regulatory well-capitalized levels for all scenarios. We were satisfied with the feedback around our stress testing process, approach and methodologies.

Under the final Federal Reserve regulations, the parent company will be required to conduct its first stress test using financial statement data as of September 30, 2016, and it will be required to report the results of its first stress test to the Federal Reserve on or before March 31, 2017, and to disclose a summary of its stress test results between June 15 and June 30, 2017.

For additional regulatory information on our brokerage and banking regulations, see Note 19—Regulatory Requirements of Item 8. Financial Statements and Supplementary Data.

AVAILABLE INFORMATION

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, available free of charge at our website as soon as reasonably practicable after they have been filed with the SEC. Our website address is www.etrade.com. Information on our website is not part of this report.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the materials we file with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

The following discussion sets forth the risk factors which could materially and adversely affect our business, financial condition and results of operations, and should be carefully considered in addition to the other information set forth in this report. These are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material may also adversely affect our business, financial condition and results of operations.

Risks Relating to the Nature and Operation of Our Business

Turmoil in the global financial markets could reduce trade volumes and margin lending and increase our dependence on our more active customers who receive lower pricing, resulting in lower revenues.

Digital investing services to the retail customer, including trading, margin lending and sweep deposits, account for a significant portion of our revenues. Turmoil in the global financial markets could lead to changes in volume and price levels of securities and futures transactions which may, in turn, result in lower trading volumes and margin lending. In particular, a decrease in trading activity within our lower activity accounts could impact revenues and increase dependence on more active trading customers who receive more favorable pricing based on their trade volume. A decrease in trading activity or securities prices would also typically be expected to result in a decrease in margin lending, which would reduce the revenue that we generate from interest charged on margin lending and increase our credit risk because the value of the collateral could fall below the amount of indebtedness it secures.

We may be unsuccessful in managing the effects of changes in interest rates and the enterprise interest-earning assets in our portfolio.

Net operating interest income is an important source of our revenue. Our results of operations depend, in part, on our level of net operating interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. Our ability to manage interest rate risk could impact our financial condition. We use derivatives as hedging instruments to reduce the potential effects of changes in interest rates on our results of operations. However, the derivatives we utilize may not be completely effective at managing this risk and changes in market interest rates and the yield curve could reduce the value of our financial assets and reduce our net operating interest income.

Enterprise net interest spread may fluctuate based on the size and mix of the balance sheet, as well as the impact from changes in market interest rates. Among other items, we periodically enter into repurchase agreements to support the funding and liquidity requirements of E*TRADE Bank. If we are unsuccessful in maintaining our relationships with these counterparties, we could recognize substantial losses on the derivatives we utilized to hedge repurchase agreements.

We will continue to experience losses in our mortgage loan portfolio.

At December 31, 2014, the principal balance of our one- to four-family loan portfolio was $3.1 billion and the allowance for loan losses for this portfolio was $27 million. At December 31, 2014, the principal balance of our home equity loan portfolio was $2.8 billion and the allowance for loan losses for this portfolio was $367 million. Although the provision for loan losses has declined in recent periods, performance is subject to variability in any given quarter and we cannot state with certainty that the declining loan loss trend will continue. Due to the complexity and judgment required by management about the effect of matters that are inherently uncertain, there can be no assurance that our allowance for loan losses will be adequate. In the normal course of conducting examinations, our banking regulators, the OCC and Federal Reserve, continue to review our policies and procedures. This process is dynamic and ongoing and we cannot be certain that additional changes or actions to our policies and procedures will not result from their continuing review. We may be required under such circumstances to further increase the allowance for loan losses, which could have an adverse effect on our regulatory capital position and our results of operations in future periods.

Certain characteristics of our mortgage loan portfolio indicate an increased risk of loss. For example, at December 31, 2014:

- approximately 16% and 35% of the one- to four-family and home equity loan portfolios, respectively, had a current loan-to-value ("LTV")/combined loan-to-value ("CLTV") of greater than 100%;
- approximately 56% and 49% of the one- to four-family and home equity loan portfolios, respectively, were originated with low or no documentation; and
- borrowers with current Fair Isaac Credit Organization ("FICO") scores less than 700 consisted of approximately 34% and 37% of the one- to four-family and home equity loan portfolios, respectively.

The foregoing factors are among the key items we track to predict and monitor credit risk in our mortgage portfolio, together with loan type, housing prices, loan vintage and geographic location of the underlying property. We believe the relative importance of these factors varies, depending upon economic conditions.

Home equity loans have certain characteristics that result in higher risk than first lien, amortizing one- to four-family loans.

Approximately 85% of the home equity loan portfolio consists of second lien loans on residential real estate properties. Second lien loans carry higher credit risk because the holder of the first lien mortgage has priority in right of payment. Therefore, downturns in real estate markets may result in the value of the collateral being insufficient to cover the second lien positions. The average estimated current CLTV on our home equity loan portfolio was 92% as of December 31, 2014. We hold both the first and second lien positions in less than 1% of the home equity loan portfolio, and in loans for which we do not hold the first lien positions we are exposed to risk associated with the actions and inactions of the first lien lender.

We monitor our borrowers by refreshing FICO scores and CLTV information on a quarterly basis. We do not have access to complete data on the first lien positions of second lien home equity loans. The majority of home equity lines of credit convert to amortizing loans at the end of the draw period, which typically ranges from five to ten years. Approximately 7% of this portfolio will require the borrowers to repay the loan in full at the end of the draw period, commonly referred to as "balloon loans." At December 31, 2014, 85% of the home equity line of credit portfolio had not converted from the interest-only draw period and had not begun amortizing. As a result, we do not yet have sufficient data relating to loan default and delinquency of amortizing home equity lines of credit to determine if the performance is different than the trends observed for home equity lines of credit in an interest-only draw period. Actual loan defaults and delinquencies of amortizing home equity lines of credit that exceed our current expectations could negatively impact our financial performance.

We rely on third party service providers to perform certain key functions.

We rely on third party service providers for certain technology, processing, servicing and support functions. These third party service providers are also subject to operational and technology vulnerabilities, which may impact our business. For example, external content providers provide us with financial information, market news, quotes, research reports and other fundamental data that we offer to clients. Any significant failures or breaches by our service providers could interrupt our business, cause us to incur losses, subject us to fines or litigation and harm our reputation. An interruption in or the cessation of service by any third party service provider and our inability to make alternative arrangements in a timely manner could have a material impact on our ability to offer certain products and services and result in loss to the Company. We cannot assure that any of these providers will be able to continue to provide the products and services in an efficient, cost effective manner, if at all, or that they will be able to adequately expand their services to meet our needs and those of our customers.

We do not directly service any of our loans and as a result, we rely on third party vendors and servicers to provide information on our loan portfolio. For example, we rely on third party servicers to provide payment information on home equity loans, including which borrowers are paying only the minimum amount due. From time to time we have discovered that these vendors and servicers have provided incomplete or untimely information to us about our loan portfolio. For example, provision for loan losses increased in the third quarter of 2012 in connection with our discovery that one of our third party loan servicers had not been reporting historical bankruptcy data to us on a timely basis and, as a result, we recorded additional charge-offs in the third quarter of 2012. In connection with this discovery, we implemented an enhanced procedure around all servicer reporting to corroborate bankruptcy reporting with independent third party data.

We expect that our regulators will hold us responsible for any deficiencies in our oversight and control of our third party relationships and in the performance of those parties with which we have those relationships. If there were deficiencies in the oversight and control of our third party relationships, and if the regulators held us responsible for those deficiencies, it could have a negative effect on our business operations, reputation, and possibly profitability.

We have a large amount of corporate debt which limits how we conduct our business.

We have issued a substantial amount of corporate debt and have the capacity to incur substantial additional indebtedness under our senior secured revolving credit facility, subject to certain restrictive financial and other covenants. Our expected annual debt service interest payment is approximately $80 million. Our ratio of corporate debt to equity (expressed as a percentage) was 25% at December 31, 2014. The degree to which we are leveraged could have important consequences, including:

- a substantial portion of our cash flow from operations is dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available for other purposes;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other corporate needs is significantly limited; and
- our substantial leverage may place us at a competitive disadvantage, hinder our ability to adjust rapidly to changing market conditions and make us more vulnerable in the event of a further downturn in general economic conditions or our business.

In addition, a significant reduction in revenues could have a material adverse effect on our ability to meet our debt obligations. Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition, operating performance and our ability to receive dividend payments from our subsidiaries, which is subject to prevailing economic and competitive conditions, regulatory approval and certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In addition, the terms of existing or future debt instruments may restrict us from adopting some of these alternatives.

Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness.

We conduct all of our operations through subsidiaries and rely on dividends from our subsidiaries for all of our revenues.

We depend on dividends, distributions and other payments from our subsidiaries to fund payments on our obligations, including our debt obligations. Regulatory and other legal restrictions limit our ability to transfer funds to or from certain subsidiaries. In addition, many of our subsidiaries are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to us, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations, including our debt obligations, and otherwise conduct our business.

As of December 31, 2014, the majority of our capital was invested in our banking subsidiary E*TRADE Bank, which may not pay dividends to us without approval from the OCC and the Federal Reserve. These agencies may object to a proposed capital distribution if, among other things, E*TRADE Bank is, or as a result of such dividend or distribution would be, undercapitalized or the Federal Reserve has safety and soundness concerns. Our primary brokerage subsidiaries, E*TRADE Securities LLC and E*TRADE Clearing LLC, were both subsidiaries of E*TRADE Bank; therefore, the OCC, together with the Federal Reserve, controlled our ability to receive dividend payments from our brokerage business as well. We recently received regulatory approval to move our broker-dealers, E*TRADE Securities LLC and E*TRADE Clearing LLC, out from under E*TRADE Bank. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend of $434 million to the parent company. We plan to move E*TRADE Clearing LLC later in 2015. The revised organizational structure provides increased capital flexibility as it enables us to dividend excess regulatory capital at our broker-dealers to the parent company, without requiring approval from the OCC and the Federal Reserve. In addition, in each quarter starting in the second quarter of 2015, we plan to request approvals from the OCC and the Federal Reserve for dividends in the amount of E*TRADE Bank's net income from the previous quarter. We cannot be certain, however, that we will receive regulatory approval for such contemplated dividends at the requested levels or at all.

Under the OCC stress test regulations, E*TRADE Bank is required to conduct stress-testing using the prescribed stress-testing methodologies. The final OCC regulations required E*TRADE Bank to conduct its first stress test using financial statement data as of September 30, 2013, and to submit the results prior to March 31, 2014. E*TRADE Bank submitted the results of its first stress test prior to March 31, 2014, as required. For banking organizations with total consolidated assets of more than $10 billion but less than $50 billion, including E*TRADE Bank, the results of the first official test will not be public information. E*TRADE Bank will be required to publish summary results of its annual stress test between June 15 and June 30 each year, beginning with its second annual stress test in 2015.

The OCC analyzes and provides feedback on the quality of E*TRADE Bank's stress test process and results. In the second quarter of 2014 we received feedback from the OCC on our first official stress test submission that we remained well above the regulatory well-capitalized levels for all scenarios. We were satisfied with the feedback around our stress testing process, approach and methodologies. While there is no formal mechanism for the OCC to "pass" or "fail" E*TRADE Bank's stress test processes and results, it will likely consider these processes and results in evaluating proposed actions that may affect our bank's capital, including but not limited to dividend payments, redemption or repurchase of regulatory capital instruments and mergers and acquisitions. If the OCC were to object to any such proposed action, our business prospects, results of operations and financial condition could be adversely affected.

We operate in a highly competitive industry where many of our competitors have greater financial, technical, marketing and other resources.

The financial services industry is highly competitive, with multiple industry participants competing for the same customers. Many of our competitors have longer operating histories and greater resources than we have and offer a wider range of financial products and services. Other of our competitors offer a more narrow range of financial products and services and have not been as susceptible to the disruptions in the credit markets that have impacted our Company, and therefore have not suffered the losses we have. The impact of competitors with superior name recognition, greater market acceptance, larger customer bases or stronger capital positions could adversely affect our revenue growth and customer retention. Our competitors may also be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can. Competitors may conduct extensive promotional activities, offering better terms, lower prices and/or different products and services or combinations of products and services that could attract current E*TRADE customers and potentially result in price wars within the industry. We may not be able to match the marketing efforts or prices of our competitors due to our financial position and cost structure. Some of our competitors may also benefit from established relationships among themselves or with third parties enhancing their products and services.

In addition, we compete in a technology-intensive industry characterized by rapid innovation. We may be unable to effectively use new technologies, adopt our services to emerging industry standards or develop, introduce and market enhanced or new products and services. If we are not able to update or adapt our products and services to take advantage of the latest technologies and standards, or are otherwise unable to tailor the delivery of our services to the latest personal and mobile computing devices preferred by our retail customers, our business and financial performance could suffer.

Our ability to compete successfully in the financial services industry depends on a number of factors, including, among other things:

- maintaining and expanding our market position;
- attracting and retaining customers;
- providing easy to use and innovative financial products and services;
- our reputation and the market perception of our brand and overall value;
- maintaining competitive pricing;
- competing in a concentrated competitive landscape;
- the quality of our technology, products and services;
- deploying a secure and scalable technology and back office platform;
- innovating effectively in launching new or enhanced products;

- the differences in regulatory oversight regimes to which we and our competitors are subject;
- attracting new employees and retaining our existing employees; and
- general economic and industry trends.

Our competitive position within the industry could be adversely affected if we are unable to adequately address these factors, which could have a material adverse effect on our business and financial condition.

If we do not successfully participate in consolidation opportunities, we could be at a competitive disadvantage.

There has been significant consolidation in the financial services industry and this consolidation may continue in the future. Should we be excluded from or fail to take advantage of viable consolidation opportunities, our competitors may be able to capitalize on those opportunities and take advantage of greater scale and cost efficiencies to our detriment.

Although we are currently constrained by the terms of our corporate debt, senior secured revolving credit facility and the memoranda of understanding we and E*TRADE Bank entered into with our primary banking regulators, we may seek to acquire businesses in the future. The assets of businesses we have acquired in the past were primarily customer accounts. In future acquisitions, our retention of customers' assets may be impacted by our ability to successfully integrate the acquired operations, products (including pricing) and personnel. Diversion of management attention from other business concerns could have a negative impact. If we are not successful in our integration efforts, we may experience significant attrition in the acquired accounts or experience other issues that would prevent us from achieving the level of revenue enhancements and cost savings that we expect with respect to an acquisition.

We rely heavily on technology, which can be subject to interruption and instability due to operational and technological failures.

We rely on technology, particularly the Internet and mobile services, to conduct much of our business activity. Our systems and operations, including our primary and disaster recovery data center operations, are vulnerable to disruptions from human error, natural disasters, power outages, computer and telecommunications failures, software bugs, computer viruses or other malicious software, distributed denial of service attacks, spam attacks, security breaches and other similar events. Extraordinary trading volumes or site usage could cause our computer systems to operate at an unacceptably slow speed or even fail. Disruptions to or instability of our technology or external technology that allows our customers to use our products and services could harm our business and our reputation. Should our technology operations be disrupted, we may have to make significant investments to upgrade, repair or replace our technology infrastructure and may not be able to make such investments on a timely basis. While we have made significant investments to ensure the reliability and scalability of our operations, we cannot assure you that we will be able to maintain, expand and upgrade our systems and infrastructure to meet future requirements and mitigate future risks on a timely basis or that we will be able to retain skilled information technology employees. Disruptions in service and slower system response times could result in substantial losses, decreased client service, satisfaction and harm to our reputation. In addition, technology systems, including our own proprietary systems and the systems of third parties on whom we rely to conduct portions of our operations, are potentially vulnerable to security breaches and unauthorized usage. An actual or perceived breach of the security of our technology could harm our business and our reputation. The occurrence of any of these events may have a material adverse effect on our business or results of operations.

Unauthorized disclosure of confidential customer information, whether through a breach of our computer systems or those of our customers or third parties, may subject us to significant liability and reputational harm.

As part of our business, we are required to collect, use and store customer, employee and third party personally identifiable information ("PII"). This may include, among other information, names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers and account information. We maintain systems including cybersecurity procedures designed to securely process, transmit and store confidential information (including PII) and protect against unauthorized access to such information. We also require our third party vendors to have adequate security if they have access to PII. However, these risks have grown in recent years due to increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Despite these security measures, our systems, and those of our customers and third party vendors, may be vulnerable to security breaches, phishing attacks, cyber-attacks, acts of vandalism, information security breaches and computer viruses which could result in unauthorized access, misuse, loss or destruction of data, an interruption in service or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of PII, whether by us or by our customers or third party vendors, could severely damage our reputation, expose us to the risk of litigation and liability, disrupt our operations and have a materially adverse effect on our business. Future legislation and regulatory action regarding cybersecurity or PII could result in increased costs and compliance efforts.

Because our business model relies heavily on our customers' use of their own personal computers, mobile devices and the Internet, our business and reputation could be harmed by security breaches of our customers and third parties. Computer viruses and other attacks on our customers' personal computer systems, home networks and mobile devices or against the third-party networks and systems of internet and mobile service providers could create losses for our customers even without any breach in the security of our systems, and could thereby harm our business and our reputation. As part of our E*TRADE Complete Protection Guarantee, we reimburse our customers for losses caused by a breach of security of our customers' own personal systems. Such reimbursements could have a material impact on our financial performance.

We may suffer losses due to credit risk associated with margin lending, securities loaned transactions or financial transactions with counterparties.

We permit certain customers to purchase securities on margin. A downturn in securities markets may impact the value of collateral held in connection with margin receivables and may reduce its value below the amount borrowed, potentially creating collections issues with our margin receivables. In addition, we frequently borrow securities from and lend securities to other broker-dealers. Under regulatory guidelines, when we borrow or lend securities, we must simultaneously disburse or receive cash deposits. A sharp change in security market values may result in losses if counterparties to the borrowing and lending transactions fail to honor their commitments. We also engage in financial transactions with counterparties, including repurchase agreements, that expose us to credit losses in the event counterparties cannot meet their obligations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management for additional information.

Advisory services subject us to additional risks.

We provide advisory services to investors to aid them in their decision making. Investment recommendations and suggestions are based on publicly available documents and communications with investors regarding investment preferences and risk tolerances. Publicly available documents may be inaccurate and misleading, resulting in recommendations or transactions that are inconsistent with investors' intended results. In addition, advisors may not understand investor needs or risk tolerances, which may result in the recommendation or purchase of a portfolio of assets that may not be suitable for the investor. Risks associated with advisory services also include those arising from possible conflicts of interest, inadequate due diligence, inadequate disclosure, human error and fraud. To the extent that we fail to know our customers or improperly advise them, we could be found liable for losses suffered by such customers, which could harm our reputation and business.

We have a significant deferred tax asset and cannot assure it will be fully realized.

We had net deferred tax assets of $951 million at December 31, 2014. We did not establish a valuation allowance against our federal net deferred tax assets at December 31, 2014 as we believe that it is more likely than not that all of these assets will be realized. In evaluating the need for a valuation allowance, we estimated future taxable income based on management approved forecasts. This process required significant judgment by management about matters that are by nature uncertain. If future events differ significantly from our current forecasts, a valuation allowance may need to be established, which could have a material adverse effect on our results of operations and our financial condition. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Critical Accounting Policies and Estimates for additional information.

As a result of a registered offering of the Company's common stock, an exchange of certain of the Company's debt securities and related transactions in 2009, we believe that we experienced an "ownership change" for tax purposes that could cause us to permanently lose a significant portion of our U.S. federal and state deferred tax assets.

As a result of a registered offering of the Company's common stock, an exchange of certain of the Company's debt securities and related transactions in 2009, we believe that we experienced an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended ("Section 382") (which is generally a greater than 50 percentage point increase by certain "5% shareholders" over a rolling three year period). Section 382 imposes an annual limitation on the utilization of deferred tax assets, such as net operating loss carryforwards and other tax attributes, once an ownership change has occurred. Depending on the size of the annual limitation (which is in part a function of our market capitalization at the time of the ownership change) and the remaining carryforward period of the tax assets (U.S. federal net operating losses generally may be carried forward for a period of 20 years), we could realize a permanent loss of a portion of our U.S. federal and state deferred tax assets and certain built-in losses that have not been recognized for tax purposes. We believe the tax ownership change will extend the period of time it will take to fully utilize our pre-ownership change net operating losses ("NOLs"), but will not limit the total amount of pre-ownership change federal NOLs we can utilize. This is a complex analysis and requires the Company to make certain judgments in determining the annual limitation. As a result, it is possible that we could ultimately lose a significant portion of deferred tax assets, which could have a material adverse effect on our results of operations and financial condition.

Risks Relating to the Regulation of Our Business

We are subject to extensive government regulation, including banking and securities rules and regulations, which could restrict our business practices.

The securities and banking industries are subject to extensive regulation. Our broker-dealer subsidiaries must comply with many laws and rules, including rules relating to sales practices and the suitability of recommendations to customers, possession and control of customer funds and securities, margin lending, execution and settlement of transactions and anti-money laundering.

Similarly, E*TRADE Financial Corporation and ETB Holdings, Inc., as savings and loan holding companies, and E*TRADE Bank and E*TRADE Savings Bank, as federally chartered savings banks, are subject to extensive regulation, supervision and examination by the OCC and the Federal Reserve (including pursuant to the terms of the memoranda of understanding that E*TRADE Financial Corporation entered into with the Federal Reserve and that E*TRADE Bank entered into with the OCC) and, in the case of the savings banks, also the FDIC. Such regulation covers all banking business, including lending practices, safeguarding deposits, capital structure, recordkeeping, transactions with affiliates and conduct and qualifications of personnel.

In providing services to clients, we manage, use and store sensitive customer data including PII. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws and foreign regulations governing the protection of PII. These laws have increased in complexity, change frequently and can conflict with one another.

While we have implemented policies and procedures designed to ensure compliance with all applicable laws and regulations, our regulators have broad discretion with respect to the enforcement of applicable laws and regulations and there can be no assurance that violations will not occur. Failure to comply with applicable laws and regulations and our policies could result in sanctions by regulatory agencies, litigation, civil penalties and harm to our reputation, which could have a material adverse effect on our business, financial condition and results of operations. Further, to the extent we undertake actions requiring regulatory approval or non-objection, our regulators may make their approval or non-objection subject to conditions or restrictions that could have a material adverse effect on our business, results of operations and financial condition.

In addition, the profitability of the Company could also be affected by regulations which impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, customer privacy and security of customer data.

Ongoing regulatory reform efforts may have a material impact on our operations. In addition, if we are unable to meet any new or ongoing requirements, we could face negative regulatory consequences, which would have a material negative effect on our business.

On July 21, 2010, the President signed into law the Dodd-Frank Act. This law contains various provisions designed to enhance financial stability and to reduce the likelihood of another financial crisis and significantly changed the bank regulatory structure for our Company and its thrift subsidiaries. Portions of the Dodd-Frank Act were effective immediately, but other portions will be effective following extended transition periods or through numerous rulemakings by multiple government agencies, some of which have not yet been completed. While there continues to be uncertainty about the full impact of those changes, we do know that we are subject to a more complex regulatory framework and we will continue to incur costs to implement the new requirements as well as monitor for continued compliance.

The Federal Reserve has primary jurisdiction for the supervision and regulation of savings and loan holding companies, including the Company; and the OCC has primary supervision and regulation of federal savings associations, such as the Company's two thrift subsidiaries. Although the Dodd-Frank Act maintains the federal thrift charter, it eliminates certain preemption, branching and other benefits of the charter and imposes new penalties for failure to comply with the qualified thrift lender test. The Dodd-Frank Act also requires all companies, including savings and loan holding companies that directly or indirectly control an insured depository institution, to serve as a source of strength for the institution, including committing necessary capital and liquidity support.

We are required to file periodic reports with the Federal Reserve and are subject to examination and supervision by it. The Federal Reserve also has certain types of enforcement powers over us, ETB Holdings, Inc., and our non-depository institution subsidiaries, including the ability to issue cease-and-desist orders, force divestiture of our thrift subsidiaries and impose civil and monetary penalties for violations of federal banking laws and regulations or for unsafe or unsound banking practices. Our thrift subsidiaries are subject to similar reporting, examination, supervision and enforcement oversight by the OCC. The Federal Reserve has issued guidance aligning the supervisory and regulatory standards of savings and loan holding companies more closely with the standards applicable to bank holding companies. For all banks and thrifts with total consolidated assets over $10 billion, including E*TRADE Bank, the CFPB has exclusive rulemaking and examination, and primary enforcement authority, under federal consumer financial laws and regulations. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB.

For us, one of the most significant changes since the passage of Dodd-Frank has been that savings and loan holding companies such as our Company are now subject to the same capital and activity requirements as those applicable to bank holding companies. The phase-in of these capital requirements began January 1, 2015 and we will be required to comply with the fully phased-in capital standards beginning in 2019. We expect to meet the capital requirements applicable to thrift holding companies as they are phased in. However, it is possible that our regulators may impose additional, more stringent capital and other prudential standards, which could be applicable to us, prior to the end of the five year phase-in period. For example, both the OCC and the Federal Reserve have issued generally applicable final regulations that required E*TRADE Bank and will ultimately also require the parent company to conduct capital adequacy tests on their operations. Pursuant to those regulations, E*TRADE Bank disclosed a summary of these stress test results to the OCC on or before March 31, 2014 and the Company will ultimately also be required to disclose a summary of its stress test results to the Federal Reserve on or before March 31, 2017.

If we fail to comply with applicable securities and banking laws, rules and regulations, either domestically or internationally, we could be subject to disciplinary actions, damages, penalties or restrictions that could significantly harm our business.

The SEC, FINRA and other self-regulatory organizations and state securities commissions, among other things, can censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. The OCC and Federal Reserve may take similar action with respect to our banking and other financial activities, respectively. Similarly, the attorneys general of each state could bring legal action on behalf of the citizens of the various states to ensure compliance with local laws. Regulatory agencies in countries outside of the U.S. have similar authority. The ability to comply with applicable laws and rules is dependent in part on the establishment and maintenance of a reasonable compliance function. The failure to establish and enforce reasonable compliance procedures, even if unintentional, could subject us to significant losses or disciplinary or other actions.

During 2012, the Company completed a review of order handling practices and pricing for order flow between E*TRADE Securities LLC and G1 Execution Services, LLC. The Company has implemented the changes to its practices and procedures that were recommended during the review. Banking regulators and federal securities regulators were regularly updated during the course of the review and may initiate investigations into the Company's historical practices which could subject it to monetary penalties and cease-and-desist orders, which could also prompt claims by customers of E*TRADE Securities LLC. Any of these actions could materially and adversely affect the Company. On July 11, 2013, FINRA notified E*TRADE Securities LLC and G1 Execution Services, LLC that it is conducting an examination of both firms' routing practices. The Company is cooperating fully with FINRA in this examination. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna International Group, LLP ("Susquehanna"), the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation.

If we do not maintain the capital levels required by regulators, we may be fined or subject to other disciplinary or corrective actions.

The SEC, FINRA, the OCC, the Federal Reserve and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of regulatory capital by banks and net capital by securities broker-dealers. E*TRADE Bank is subject to various regulatory capital requirements administered by the OCC, and E*TRADE Financial Corporation became subject to specific capital requirements administered by the Federal Reserve on January 1, 2015. Failure to meet minimum capital requirements can trigger certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could harm E*TRADE Bank's and E*TRADE Financial Corporation's operations and financial statements.

E*TRADE Bank must meet specific capital guidelines that involve quantitative measures of E*TRADE Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. In July 2013, the U.S. Federal banking agencies finalized a rule to implement Basel III in the U.S., which provides the framework for the calculation of a banking organization's regulatory capital and risk-weighted assets. The Basel III rule establishes Common Equity Tier 1 capital as a new tier of capital, raises the minimum thresholds for required capital, increases minimum required risk-based capital ratios, narrows the eligibility criteria for regulatory capital instruments, provides for new regulatory capital deductions and adjustments, and modifies methods for calculating risk-weighted assets (the denominator of risk-based capital ratios) by, among other things, strengthening counterparty credit risk capital requirements. The Basel III final rule also introduces a capital conservation buffer that limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a Common Equity Tier 1 capital conservation buffer of more than 2.5%, on a fully phased-in basis, of total risk-weighted assets above each of the following minimum risk-based capital ratio requirements: Common Equity Tier 1 (4.5%), Tier 1 (6.0%), and total risk-based capital (8.0%). This requirement will begin to take effect on January 1, 2016, and will be fully phased in by 2019.

The rule became effective on January 1, 2014, for certain large banking organizations, and January 1, 2015, for most other U.S. banking organizations, including the Company and E*TRADE Bank. The fully phased-in Basel III capital standards will become effective January 1, 2019 for the Company and E*TRADE Bank. We expect to remain compliant with the Basel III framework as it is phased in.

Several elements of the final rule are likely to have a meaningful impact on us. Margin receivables will qualify for 0% risk-weighting, and we believe that we will be able to include a larger portion of our deferred tax assets in regulatory capital, both having a favorable impact on our current capital ratios. A portion of this benefit will be offset as we phase out trust preferred securities from the parent company's regulatory capital. In addition, the final rule gives the option for a one-time permanent election for the inclusion or exclusion in the calculation of Common Equity Tier 1 capital of unrealized gains (losses) on all available-for-sale debt securities; we currently intend to elect to exclude unrealized gains (losses).

The Company’s and E*TRADE Bank’s capital amounts and classification are subject to qualitative judgments by the regulators about the strength of components of its capital, risk weightings of assets, off-balance sheet transactions and other factors. Any significant reduction in the Company’s or E*TRADE Bank’s regulatory capital could result in E*TRADE Bank being less than "well capitalized" or "adequately capitalized" under applicable capital rules. A failure of the Company or E*TRADE Bank to be "adequately capitalized" which is not cured within time periods specified in the indentures governing our debt securities or senior secured revolving credit facility would constitute a default under our debt securities and senior secured revolving credit facility and likely result in the debt securities and senior secured revolving credit facility becoming immediately due and payable at their full face value.

The OCC and the Federal Reserve may request we raise equity to increase the regulatory capital of the Company or E*TRADE Bank or to further reduce debt. If we were unable to raise equity, we could face negative regulatory consequences, such as restrictions on our activities, requirements that we divest ourselves of certain businesses and requirements that we dispose of certain assets and liabilities within a prescribed period. Any such actions could have a material negative effect on our business.

Similarly, failure to maintain the required net capital by our securities broker-dealers could result in suspension or revocation of registration by the SEC and suspension or expulsion by FINRA, and could ultimately lead to the firm’s liquidation. If such net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require an intensive use of capital could be limited. Such operations may include investing activities, marketing and the financing of customer account balances. Also, our ability to withdraw capital from brokerage subsidiaries could be restricted.

As a non-grandfathered savings and loan holding company, we are subject to activity limitations and requirements that could restrict our ability to engage in certain activities and take advantage of certain business opportunities.

Under the Gramm-Leach-Bliley Act of 1999, our activities are restricted to those that are financial in nature and certain real estate-related activities. We believe all of our existing activities and investments are permissible under the Gramm-Leach-Bliley Act of 1999. At the same time, we are unable to pursue future activities that are not financial in nature or otherwise real-estate related. We are also limited in our ability to invest in other savings and loan holding companies. The Dodd-Frank Act also requires savings and loan holding companies like ours, as well as all of our thrift subsidiaries, to be both "well capitalized" and "well managed" in order for us to conduct certain financial activities, such as securities underwriting. We believe that we will be able to continue to engage in all of our current financial activities. However, if we and our thrift subsidiaries are unable to satisfy the "well capitalized" and "well managed" requirements, we could be subject to activity restrictions that could prevent us from engaging in securities underwriting as well as other negative regulatory actions.

In addition, E*TRADE Bank is currently subject to extensive regulation of its activities and investments, capitalization, community reinvestment, risk management policies and procedures and relationships with affiliated companies. Acquisitions of and mergers with other financial institutions, purchases of deposits and loan portfolios, the establishment of new depository institution subsidiaries and the commencement of new activities by bank subsidiaries require the prior approval of the OCC and the Federal Reserve, and in some cases the FDIC, which may deny approval or condition their approval on the imposition of limitations on the scope of our planned activity. Also, these regulations and conditions could affect our ability to realize synergies from future acquisitions, negatively affect us following an acquisition and also delay or prevent the development, introduction and marketing of new products and services. In addition, E*TRADE Clearing LLC, so long as it is an operating subsidiary of E*TRADE Bank, is subject to increased regulatory oversight and the same activity restrictions that are applicable to E*TRADE Bank. We recently received regulatory approval to move our broker-dealers, E*TRADE Securities LLC and E*TRADE Clearing LLC, out from under E*TRADE Bank. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and we plan to move E*TRADE Clearing LLC later in 2015, at which point these restrictions will be no longer applicable.

Risks Relating to Owning Our Stock

Our business operations are substantially restricted by the terms of our corporate debt.

Our senior secured revolving credit facility and the indentures governing our corporate debt contain various covenants and restrictions that place limitations on our ability and certain of our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- create liens;
- pay dividends, make distributions or other payments;
- repurchase or redeem capital stock;
- make investments or other restricted payments;
- enter into transactions with our shareholders or affiliates;
- sell assets or shares of capital stock of our subsidiaries; and
- merge, consolidate or transfer substantially all of our assets.

As a result of the covenants and restrictions contained in the indentures and senior secured revolving credit facility, we are limited in how we conduct our business and we may be unable to raise additional debt or equity financing at all or on terms sufficient to compete effectively or to take advantage of new business opportunities. Each series of our corporate debt contains a limitation, subject to important exceptions, on our ability to incur additional debt if our Consolidated Fixed Charge Coverage Ratio (as defined in the relevant indentures) is less than or equal to 2.5 to 1.0 under the terms of our outstanding convertible notes and 2.0 to 1.0 under the terms of our other outstanding series of notes. As of December 31, 2014, our Consolidated Fixed Charge Coverage Ratio was 5.7 to 1.0.

The senior secured revolving credit facility also contains certain covenants including that we maintain a minimum fixed charge coverage ratio (as defined in the senior secured revolving credit facility) of 1.5 to 1.0, a maximum total leverage ratio, a maximum asset quality ratio, certain capitalization requirements for the parent company and certain of its subsidiaries and at least $100 million in unrestricted cash at the parent company.

The covenants, among other things, generally limit our ability to incur additional debt even if we were to substantially reduce our existing debt through debt exchange transactions. We could be forced to repay immediately all our outstanding borrowings under the senior secured revolving credit facility and outstanding debt securities at their full principal amount if we were to breach these covenants and did not cure such breach within the cure periods (if any) specified in the respective indentures and senior secured revolving credit facility. Further, if we experience a change of control, as defined in the indentures, we could be required to offer to purchase our debt securities at 101% of their principal amount. Under certain of our debt securities a "change of control" would occur if, among other things, a person became the beneficial owner of more than 50% of the total voting power of our voting stock which, with respect to the 6 3/8% senior notes due November 2019 ("6 3/8% Notes") and 5 3/8% senior notes due November 2022, would need to be coupled with a ratings downgrade before we would be required to offer to purchase those securities. A "change in control" (as defined in the senior secured revolving credit facility) would occur if a person became the beneficial owner of more than 35% of the total voting power of our voting stock or if a change of control were deemed to occur pursuant to the terms of certain of our debt securities. In such event, we could be required to repay all loans outstanding under the credit facility at their full principal amount plus any accrued interest or fees.

We cannot assure that we will be able to remain in compliance with these covenants in the future and, if we fail to comply, we cannot guarantee that we will be able to obtain waivers from the appropriate parties and/or amend the covenants. In addition, the terms of any future indebtedness could include more restrictive covenants.

The value of our common stock may be diluted if we need additional funds in the future.

In the future, we may need to raise additional funds via the issuance and sale of our debt and/or equity instruments, which we may not be able to conduct on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital needs and our plans for the growth of our business. In addition, if funds are available, the issuance of equity securities could significantly dilute the value of our shares of our common stock and cause the market price of our common stock to fall. We have the ability to issue a significant number of shares of stock in future transactions, which would substantially dilute existing stockholders, without seeking further stockholder approval.

In recent periods, the global financial markets were in turmoil and the equity and credit markets experienced extreme volatility, which caused already weak economic conditions to worsen. Continued turmoil in the global financial markets could further restrict our access to the equity and debt markets.

The market price of our common stock may continue to be volatile.

From January 1, 2012 through December 31, 2014, the price per share of our common stock ranged from a low of $7.08 to a high of $25.58. The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations. Among the factors that may affect our stock price are the following:

- speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, or strategic transactions;
- the announcement of new products, services, acquisitions, or dispositions by us or our competitors; and
- increases or decreases in revenues or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results.

Changes in the stock market generally or as it concerns our industry may also affect our stock price. In the past, volatility in the market price of a company's securities has often led to securities class action litigation. Such litigation could result in substantial costs to us and divert our attention and resources, which could harm our business. We have been a party to litigation related to the decline in the market price of our stock in the past and such litigation could occur again in the future. Declines in the market price of our common stock or failure of the market price to increase could also harm our ability to retain key employees, reduce our access to capital, impact our ability to utilize deferred tax assets in the event of another ownership change and otherwise harm our business.

We have provisions in our organizational documents that may discourage takeover attempts.

Certain provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a third party from acquiring control of us in a merger, acquisition or similar transaction that a stockholder may consider favorable. Such provisions include:

- authorization for the issuance of "blank check" preferred stock;
- the prohibition of cumulative voting in the election of directors;
- a super-majority voting requirement to effect business combinations and certain amendments to our certificate of incorporation and bylaws;
- limits on the persons who may call special meetings of stockholders;
- the prohibition of stockholder action by written consent; and
- advance notice requirements for nominations to the Board or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, certain provisions of our stock incentive plans, management retention and employment agreements (including severance payments and stock option acceleration), our senior secured credit facility, certain provisions of Delaware law and certain provisions of the indentures governing certain series of our debt securities that would require us to offer to purchase such securities at a premium in the event of certain changes in our ownership may also discourage, delay or prevent someone from acquiring or merging with us, which could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A summary of our significant locations at December 31, 2014 is shown in the following table. Square footage amounts are net of space that has been sublet or part of a facility restructuring.

Location	Approximate Square Footage
Alpharetta, Georgia	260,000
Jersey City, New Jersey	109,000
Arlington, Virginia	102,000
Sandy, Utah	66,000
Menlo Park, California	63,000
New York, New York	39,000

All facilities are leased at December 31, 2014, including 165,000 square feet of our office in Alpharetta, Georgia. We executed a sale-leaseback transaction on this office during 2014. See Note 9—Property and Equipment, Net in Item 8. Financial Statements and Supplementary Data for more information.

All of our facilities are used by either our trading and investing or balance sheet management segments, in addition to the corporate/other category. All other leased facilities with space of less than 25,000 square feet are not listed by location. In addition to the significant facilities above, we also lease all 30 E*TRADE branches, ranging in space from approximately 2,500 to 8,000 square feet. We believe our facilities space is adequate to meet our needs in 2015.

ITEM 3. LEGAL PROCEEDINGS

On October 27, 2000, Ajaxo, Inc. ("Ajaxo") filed a complaint in the Superior Court for the State of California, County of Santa Clara. Ajaxo sought damages and certain non-monetary relief for the Company's alleged breach of a non-disclosure agreement with Ajaxo pertaining to certain wireless technology that Ajaxo offered the Company as well as damages and other relief against the Company for their alleged misappropriation of Ajaxo's trade secrets. Following a jury trial, a judgment was entered in 2003 in favor of Ajaxo against the Company for $1 million for breach of the Ajaxo non-disclosure agreement. Although the jury found in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets, the trial court subsequently denied Ajaxo's requests for additional damages and relief. On December 21, 2005, the California Court of Appeal affirmed the above-described award against the Company for breach of the nondisclosure agreement but remanded the case to the trial court for the limited purpose of determining what, if any, additional damages Ajaxo may be entitled to as a result of the jury's previous finding in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets. Although the Company paid Ajaxo the full amount due on the above-described judgment, the case was remanded back to the trial court, and on May 30, 2008, a jury returned a verdict in favor of the Company denying all claims raised and demands for damages against the Company. Following the trial court's entry of judgment in favor of the Company on September 5, 2008, Ajaxo filed post-trial motions for vacating this entry of judgment and requesting a new trial. The trial court denied these motions. On December 2, 2008, Ajaxo filed a notice of appeal with the Court of Appeal of the State of California for the Sixth District. On August 30, 2010, the Court of Appeal affirmed the trial court's verdict in part and reversed the verdict in part, remanding the case. The Company petitioned the Supreme Court of California for review of the Court of Appeal decision. On December 16, 2010, the California Supreme Court denied the Company's petition for review and remanded for further proceedings to the trial court. The testimonial phase of the third trial in this matter concluded on June 12, 2012. By order dated May 28, 2014, the Court determined to conduct a second phase of this bench trial to allow Ajaxo to attempt to prove entitlement to additional royalties. Hearings in phase two of the trial concluded January 8, 2015, and final written closing statements will be submitted March 16, 2015. The Company will continue to defend itself vigorously.

On May 16, 2011, Droplets Inc., the holder of two patents pertaining to user interface servers, filed a complaint in the U.S. District Court for the Eastern District of Texas against E*TRADE Financial Corporation, E*TRADE Securities LLC, E*TRADE Bank and multiple other unaffiliated financial services firms. Plaintiff contends that the defendants engaged in patent infringement under federal law. Plaintiff seeks unspecified damages and an injunction against future infringements, plus royalties, costs, interest and attorneys' fees. On September 30, 2011, the Company and several co-defendants filed a motion to transfer the case to the Southern District of New York. Venue discovery occurred throughout December 2011. On January 1, 2012, a new judge was assigned to the case. On March 28, 2012, a change of venue was granted and the case was transferred to the United States District Court for the Southern District of New York. The Company filed its answer and counterclaim on June 13, 2012 and plaintiff moved to dismiss the counterclaim. The Company filed a motion for summary judgment. Plaintiffs sought to change venue back to the Eastern District of Texas on the theory that this case is one of several matters that should be consolidated in a single multi-district litigation. On December 12, 2012, the Multidistrict Litigation Panel denied the transfer of this action to Texas. By opinion dated April 4, 2013, the Court denied defendants' motion for summary judgment and plaintiff's motion to dismiss the counterclaims. The Court issued its order on claim construction on October 22, 2013, and by order dated January 28, 2014, the Court adopted the defendants' proposed claims construction. On March 25, 2014, the Court granted plaintiff leave to amend its complaint to add a newly-issued patent, but stayed all litigation pertaining to that patent until a covered business method review could be heard by the Patent and Trademark Appeals Board. The defendants' petitions for covered business method reviews were denied by the Patent and Trademark Appeals Board. Motions for summary judgment were filed in the U.S. District Court in August 2014 and the parties await the decision. The Company will continue to defend itself vigorously in this matter, both in the District Court and at the U.S. Patent and Trademark Office.

Several cases have been filed nationwide involving the April 2007 leveraged buyout ("LBO") of the Tribune Company ("Tribune") by Sam Zell, and the subsequent bankruptcy of Tribune. In William Niese et al. v. A.G. Edwards et al., in Superior Court of Delaware, New Castle County, former Tribune employees and retirees claimed that Tribune was actually insolvent at the time of the LBO and that the LBO constituted a fraudulent transaction that depleted the plaintiffs' retirement plans, rendering them worthless. E*TRADE Clearing LLC, along with numerous other financial institutions, is a named defendant in this case. One of the defendants removed the action to federal district court in Delaware on July 1, 2011. In Deutsche Bank Trust Company Americas et al. v. Adaly Opportunity Fund et al., filed in the Supreme Court of New York, New York County on June 3, 2011, the Trustees of certain notes issued by Tribune allege wrongdoing in connection with the LBO. In particular the Trustees claim that the LBO constituted a constructive fraudulent transfer under various state laws. G1 Execution Services, LLC (formerly known as E*TRADE Capital Markets, LLC), along with numerous other financial institutions, is a named defendant in this case. In Deutsche Bank et al. v. Ohlson et al., filed in the U.S. District Court for the Northern District of Illinois, noteholders of Tribune asserted claims of constructive fraud and G1 Execution Services, LLC is a named defendant in this case. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna, the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation. In EGI-TRB LLC et al. v. ABN-AMRO et al., filed in the Circuit Court of Cook County Illinois, creditors of Tribune assert fraudulent conveyance claims against multiple shareholder defendants and E*TRADE Clearing LLC is a named defendant in this case. These cases have been consolidated into a multi-district litigation. The Company's time to answer or otherwise respond to the complaints has been stayed pending further orders of the Court. On September 18, 2013, the Court entered the Fifth Amended Complaint. On September 23, 2013, the Court granted the defendants' motion to dismiss the individual creditors' complaint. The individual creditors filed a notice of appeal. The steering committees for plaintiffs and defendants have submitted a joint plan for the next phase of litigation. The next phase of the action will involve individual motions to dismiss. On April 22, 2014, the Court issued its protocols for dismissal motions for those defendants who were "mere conduits" who facilitated the transactions at issue. The motion to dismiss Count I of the Fifth Amended Complaint for failure to state a cause of action was fully briefed on July 2, 2014, and the parties await decision on that motion. The Company will defend itself vigorously in these matters.

During 2012, the Company completed a review of order handling practices and pricing for order flow between E*TRADE Securities LLC and G1 Execution Services, LLC. The Company has implemented changes to its practices and procedures that were recommended during the review. Banking regulators and federal securities regulators were regularly updated during the course of the review and may initiate investigations into the Company's historical practices which could subject it to monetary penalties and cease-and-desist orders, which could also prompt claims by customers of E*TRADE Securities LLC. Any of these actions could materially and adversely affect the Company's broker-dealer businesses. On July 11, 2013, FINRA notified E*TRADE Securities LLC and G1 Execution Services, LLC that it is conducting an examination of both firms' routing practices. The Company is cooperating fully with FINRA in this examination. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna, the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation.

On April 30, 2013, a putative class action was filed by John Scranton, on behalf of himself and a class of persons similarly situated, against E*TRADE Financial Corporation and E*TRADE Securities LLC in the Superior Court of California, County of Santa Clara, pursuant to the California procedures for a private Attorney General action. The Complaint alleged that the Company misrepresented through its website that it would always automatically exercise options that were in-the-money by $0.01 or more on expiration date. Plaintiffs allege violations of the California Unfair Competition Law, the California Consumer Remedies Act, fraud, misrepresentation, negligent misrepresentation and breach of fiduciary duty. The case has been deemed complex within the meaning of the California Rules of Court, and a case management conference was held on September 13, 2013. The Company's demurrer and motion to strike the complaint were granted by order dated December 20, 2013. The Court granted leave to amend the complaint. A second amended complaint was filed on January 31, 2014. On March 11, 2014, the Company moved to strike and for a demurrer to the second amended complaint. On October 20, 2014, the Court sustained the Company's demurrer, dismissing four counts of the second amended complaint with prejudice and two counts without prejudice. The plaintiffs filed a third amended complaint on November 10, 2014. The Company filed a third demurrer and motion to strike on December 12, 2014. The Company will continue to defend itself vigorously in this matter.

On April 18, 2014, a putative class action was filed by the City of Providence, Rhode Island against forty-one high frequency trading firms, stock exchanges, market-makers, and other broker-dealers, including the Company, in the U.S. District Court for the Southern District of New York. The Complaint alleges that the high frequency trading firms, certain broker-dealers managing dark pools, and the exchanges manipulated the U.S. Securities markets, and that numerous market-makers and broker-dealers participated in that manipulation by doing business with the high frequency traders. As to the Company, the Complaint alleges violation of Sections 10(b) and 20(a) of the Exchange Act. On May 2, 2014, a similar putative class action was filed by American European Insurance Company against forty-two high frequency trading firms, stock exchanges, market-makers, and other broker-dealers, including the Company, in the U.S. District Court for the Southern District of New York. The action filed by American European Insurance Company made allegations substantially similar to the allegations in the City of Providence complaint. On June 13, 2014, a putative class action was filed by James J. Flynn and Dominic Morelli against twenty-six firms including the Company in the United States District Court for the Southern District of New York. The Flynn Complaint made allegations substantially similar to the allegations in the City of Providence Complaint. The consolidated amended complaint does not identify the Company as a defendant or make any allegations regarding the Company.

In October 2014, E*TRADE Securities LLC and G1 Execution Services, LLC reached a settlement with the SEC in connection with effecting the sale of certain "penny stock" securities on behalf of three former customers without an applicable exemption from the registration provisions of the federal securities laws during the period 2007 to 2011. Without admitting or denying the SEC's findings, E*TRADE Securities LLC and G1 Execution Services, LLC entered into a settlement pursuant to which they agreed to be censured and consented to an order of the SEC requiring them to cease and desist from committing or causing future violations of the registration provisions of the Securities Act of 1933. Pursuant to the settlement agreement, E*TRADE Securities LLC and G1 Execution Services, LLC agreed to pay approximately $1.6 million in disgorgement and prejudgment interest on commissions and a $1 million penalty.

In addition to the matters described above, the Company is subject to various legal proceedings and claims that arise in the normal course of business. In each pending matter, the Company contests liability or the amount of claimed damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages, or where investigation or discovery have yet to be completed, the Company is unable to reasonably estimate a range of possible losses on its remaining outstanding legal proceedings; however, the Company believes any losses would not be reasonably likely to have a material adverse effect on the consolidated financial condition or results of operations of the Company.

An unfavorable outcome in any matter could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows. In addition, even if the ultimate outcomes are resolved in the Company’s favor, the defense of such litigation could entail considerable cost or the diversion of the efforts of management, either of which could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

The Company maintains insurance coverage that management believes is reasonable and prudent. The principal insurance coverage it maintains covers commercial general liability; property damage; hardware/software damage; cyber liability; directors and officers; employment practices liability; certain criminal acts against the Company; and errors and omissions. The Company believes that such insurance coverage is adequate for the purpose of its business. The Company’s ability to maintain this level of insurance coverage in the future, however, is subject to the availability of affordable insurance in the marketplace.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Stock Market under the ticker symbol ETFC.

Price Range of Common Stock

The following table shows the high and low intraday sale prices of our common stock as reported by the NASDAQ for the periods indicated:

	High	Low
2014:		
First Quarter	$ 25.58	$ 18.86
Second Quarter	$ 23.87	$ 19.24
Third Quarter	$ 24.57	$ 20.13
Fourth Quarter	$ 24.58	$ 18.20
2013:		
First Quarter	$ 11.82	$ 9.06
Second Quarter	$ 12.73	$ 9.52
Third Quarter	$ 17.73	$ 12.66
Fourth Quarter	$ 19.67	$ 15.54

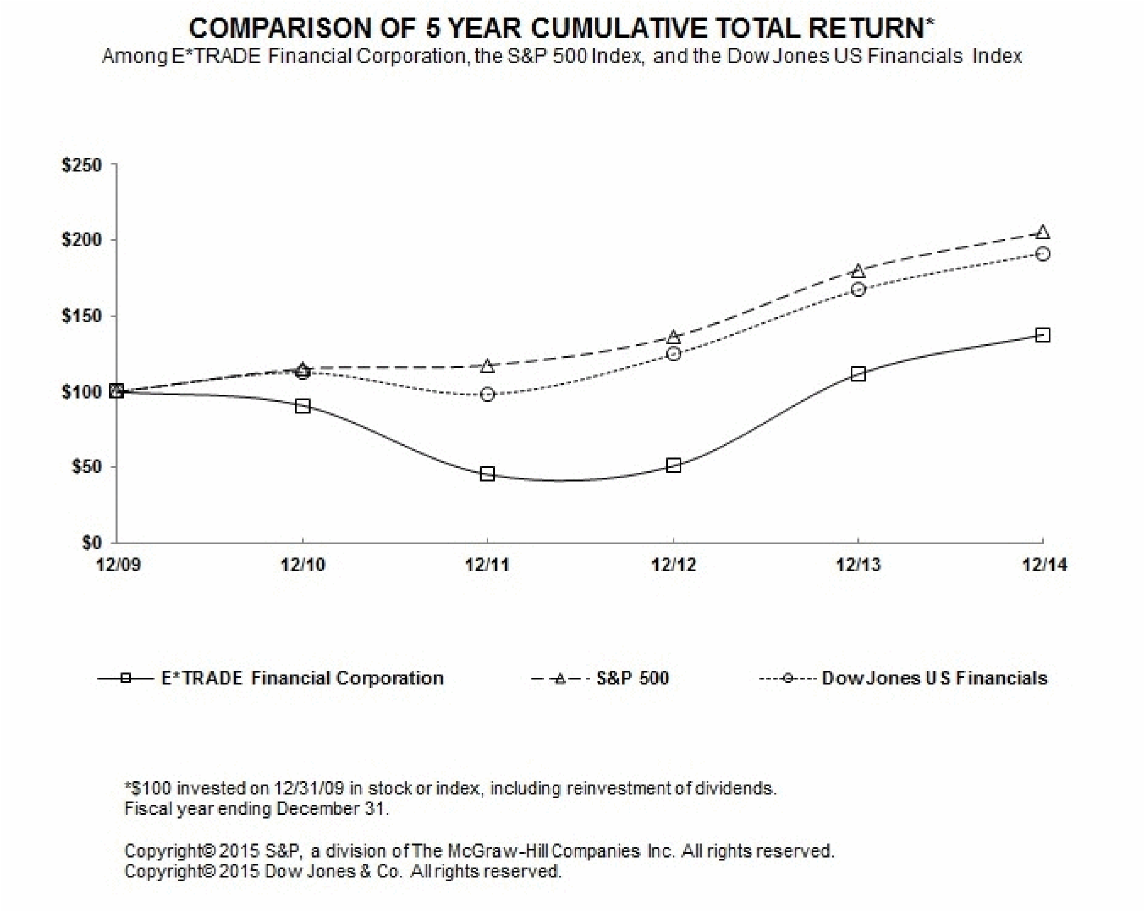
The closing sale price of our common stock as reported on the NASDAQ on February 19, 2015 was $25.64 per share. At that date, there were 986 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our common stock. The terms of our corporate debt currently prohibit the payment of dividends, subject to certain exclusions. E*TRADE Bank and its subsidiaries may not pay dividends to the parent company without approval from its regulators. We recently received regulatory approval to move both E*TRADE Securities LLC and E*TRADE Clearing LLC out from under E*TRADE Bank. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and we plan to move E*TRADE Clearing LLC later in 2015.

Performance Graph

The following performance graph shows the cumulative total return to a holder of the Company's common stock, assuming dividend reinvestment, compared with the cumulative total return, assuming dividend reinvestment, of the Standard & Poor ("S&P") 500 Index and the Dow Jones US Financials Index during the period from December 31, 2009 through December 31, 2014.



	12/09	12/10	12/11	12/12	12/13	12/14
E*TRADE Financial Corporation	100.00	90.91	45.23	50.85	111.59	137.81
S&P 500 Index	100.00	115.06	117.49	136.30	180.44	205.14
Dow Jones US Financials Index	100.00	112.72	98.24	124.62	167.26	191.67

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in millions, shares in thousands, except per share amounts):

	Year Ended December 31,					Variance
	2014	2013	2012	2011	2010	2014 vs. 2013
Results of Operations:						
Net operating interest income	$ 1,088	$ 982	$ 1,085	$ 1,220	$ 1,226	11%
Total net revenue	$ 1,814	$ 1,723	$ 1,900	$ 2,037	$ 2,078	5%
Provision for loan losses	$ 36	$ 143	$ 355	$ 441	$ 779	(75)%
Net income (loss)	$ 293	$ 86	$ (113)	$ 157	$ (28)	241%
Basic net earnings (loss) per share	$ 1.02	$ 0.30	$ (0.39)	$ 0.59	$ (0.13)	240%
Diluted net earnings (loss) per share	$ 1.00	$ 0.29	$ (0.39)	$ 0.54	$ (0.13)	245%
Weighted average shares—basic	288,705	286,991	285,748	267,291	211,302	1%
Weighted average shares—diluted	294,103	292,589	285,748	289,822	211,302	1%

(Dollars in millions):

	December 31,					Variance
	2014	2013	2012	2011	2010	2014 vs. 2013
Financial Condition:						
Available-for-sale securities	$ 12,388	$ 13,592	$ 13,443	$ 15,651	$ 14,806	(9)%
Held-to-maturity securities	$ 12,248	$ 10,181	$ 9,540	$ 6,080	$ 2,463	20%
Margin receivables	$ 7,675	$ 6,353	$ 5,804	$ 4,826	$ 5,121	21%
Loans receivable, net	$ 5,979	$ 8,123	$ 10,099	$ 12,333	$ 15,122	(26)%
Total assets	$ 45,530	$ 46,280	$ 47,387	$ 47,940	$ 46,373	(2)%
Deposits	$ 24,890	$ 25,971	$ 28,393	$ 26,460	$ 25,240	(4)%
Corporate debt						
Interest-bearing	$ 1,328	$ 1,726	$ 1,722	$ 1,451	$ 1,442	(23)%
Non-interest-bearing	$ 38	$ 42	$ 43	$ 43	$ 704	(10)%
Shareholders’ equity	$ 5,375	$ 4,856	$ 4,904	$ 4,928	$ 4,052	11%

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	As of or For the Year Ended December 31,					Variance
	2014	2013	2012	2011	2010	2014 vs. 2013
Customer Activity Metrics:						
Daily average revenue trades ("DARTs")	168,474	150,743	138,112	157,475	150,532	12 %
Average commission per trade	$ 10.81	$ 11.13	$ 11.01	$ 11.01	$ 11.21	(3)%
Margin receivables (dollars in billions)	$ 7.7	$ 6.4	$ 5.8	$ 4.8	$ 5.1	20 %
End of period brokerage accounts	3,143,923	2,998,059	2,903,191	2,783,012	2,684,311	5 %
Net new brokerage accounts	145,864	94,868	120,179	98,701	54,232	54 %
Brokerage account attrition rate	8.7%	8.8%	9.0%	10.3%	12.2%	*
Customer assets (dollars in billions)	$ 290.3	$ 260.8	$ 201.2	$ 172.4	$ 176.2	11 %
Net new brokerage assets (dollars in billions)	$ 10.9	$ 10.4	$ 10.4	$ 9.7	$ 8.1	5 %
Brokerage related cash (dollars in billions)	$ 41.1	$ 39.7	$ 33.9	$ 27.7	$ 24.5	4 %
Company Metrics:						
Corporate cash (dollars in millions)	$ 233	$ 415	$ 408	$ 484	$ 471	(44)%
E*TRADE Financial Tier 1 leverage ratio(1)	8.1%	6.7%	5.5%	5.7%	3.6%	1.4 %
E*TRADE Financial Tier 1 common ratio(1)	17.1%	13.8%	10.3%	9.4%	4.8%	3.3 %
E*TRADE Bank Tier 1 leverage ratio(2)	10.6%	9.5%	8.7%	7.8%	7.3%	1.1 %
Special mention loan delinquencies (dollars in millions)	$ 155	$ 272	$ 342	$ 467	$ 589	(43)%
Allowance for loan losses (dollars in millions)	$ 404	$ 453	$ 481	$ 823	$ 1,031	(11)%
Enterprise net interest spread	2.55%	2.33%	2.39%	2.79%	2.91%	0.22 %
Enterprise interest-earning assets (average dollars in billions)	$ 41.4	$ 40.9	$ 44.3	$ 42.7	$ 41.1	1 %
Total employees (period end)	3,221	3,009	2,988	3,240	2,962	7 %

* Percentage not meaningful.

(1) E*TRADE Financial Tier 1 leverage ratio is Tier 1 capital divided by average total assets for leverage capital purposes for the parent company. E*TRADE Financial Tier 1 common ratio is Tier 1 capital less elements of Tier 1 capital that are not in the form of common equity, such as trust preferred securities, divided by total risk-weighted assets for the parent company. The Tier 1 leverage and Tier 1 common ratios are non-GAAP measures as the parent company was not yet held to such regulatory capital requirements for the period presented and are indications of E*TRADE Financial's capital adequacy. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for a reconciliation of these non-GAAP measures to the comparable GAAP measures.

(2) The Company transitioned from reporting under the OTS reporting requirements to reporting under the OCC reporting requirements in the first quarter of 2012. The Tier 1 leverage ratio is the OCC Tier 1 leverage ratio at December 31, 2014, 2013 and 2012 and the OTS Tier 1 capital ratio at December 31, 2011 and 2010. The OTS Tier 1 capital ratio and OCC Tier 1 leverage ratio are both calculated in the same manner using adjusted total assets.

The selected consolidated financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document.

GLOSSARY OF TERMS

In analyzing and discussing our business, we utilize certain metrics, ratios and other terms that are defined in the Glossary of Terms, which is located at the end of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Strategy

Our business strategy is centered on two core objectives: accelerating the growth of our core brokerage business to improve market share, and strengthening our overall financial and franchise position.

Accelerate Growth of Core Brokerage Business

- *Capitalize on secular growth within the direct brokerage industry.*

  The direct brokerage industry is growing at a faster rate than the traditional brokerage industry. We are focused on capitalizing on this growth through ensuring our customers' trading and investing needs are met through our direct relationships.
- *Enhance digital and offline customer experience.*

  We are focused on maintaining our competitive position in trading, margin lending and cash management, while expanding our customer share of wallet in retirement, investing and savings. Through these offerings, we aim to continue acquiring new customers while deepening engagement with both new and existing ones.
- *Capitalize on value of corporate services business.*

  This includes leveraging our industry-leading position to improve client acquisition, and bolstering awareness among plan participants of our full suite of offerings. This channel is a strategically important driver of brokerage account growth for us.
- *Maximize value of deposits through the Company's bank.*

  Our brokerage business generates a significant amount of deposits, which we monetize through the bank by investing primarily in low-risk, agency mortgage-backed securities.

Strengthen Overall Financial and Franchise Position

- *Manage down legacy investments and mitigate credit losses.*

  We continue to manage down the size and risks associated with our legacy loan portfolio, while mitigating credit losses where possible.
- *Continue to execute on our capital plan.*

  Our capital plan was laid out in 2012 with a key goal of distributing capital from E*TRADE Bank to the parent company. We are now focused on utilizing excess capital created through earnings and by achieving lower capital requirements at E*TRADE Bank, while continuing to enhance our enterprise risk management culture and capabilities.

Key Factors Affecting Financial Performance

Our financial performance is affected by a number of factors outside of our control, including:

- customer demand for financial products and services;
- weakness or strength of the residential real estate and credit markets;
- performance, volume and volatility of the equity and capital markets;
- customer perception of the financial strength of our franchise;
- market demand and liquidity in the secondary market for mortgage loans and securities;
- market demand and liquidity in the wholesale borrowings market, including securities sold under agreements to repurchase;
- the level and volatility of interest rates;
- our ability to move capital to our parent company from our subsidiaries subject to various regulatory approvals; and

- changes to the rules and regulations governing the financial services industry.

In addition to the items noted above, our success in the future will depend upon, among other things, our ability to:

- have continued success in the acquisition, growth and retention of brokerage customers;
- generate meaningful growth in our retirement, investing and savings customer products;
- enhance our risk management culture and capabilities;
- mitigate credit costs;
- achieve the capital ratios stated in our capital plan, with a particular focus on the Tier 1 leverage ratio at E*TRADE Bank;
- generate capital sufficient to meet our operating needs at both our bank and our parent company;
- assess and manage interest rate risk;
- maintain disciplined expense control and improved operational efficiency; and
- compete in a technology-intensive industry characterized by rapid innovation.

Management monitors a number of metrics in evaluating the Company's performance. The most significant of these are shown in the table and discussed in the text below:

	As of or For the Year Ended December 31,			Variance
	2014	2013	2012	2014 vs. 2013
Customer Activity Metrics:				
DARTs	168,474	150,743	138,112	12 %
Average commission per trade	$ 10.81	$ 11.13	$ 11.01	(3)%
Margin receivables (dollars in billions)	$ 7.7	$ 6.4	$ 5.8	20 %
End of period brokerage accounts	3,143,923	2,998,059	2,903,191	5 %
Net new brokerage accounts	145,864	94,868	120,179	54 %
Brokerage account attrition rate	8.7%	8.8%	9.0%	*
Customer assets (dollars in billions)	$ 290.3	$ 260.8	$ 201.2	11 %
Net new brokerage assets (dollars in billions)	$ 10.9	$ 10.4	$ 10.4	5 %
Brokerage related cash (dollars in billions)	$ 41.1	$ 39.7	$ 33.9	4 %
Company Financial Metrics:				
Corporate cash (dollars in millions)	$ 233	$ 415	$ 408	(44)%
E*TRADE Financial Tier 1 leverage ratio	8.1%	6.7%	5.5%	1.4 %
E*TRADE Financial Tier 1 common ratio	17.1%	13.8%	10.3%	3.3 %
E*TRADE Bank Tier 1 leverage ratio	10.6%	9.5%	8.7%	1.1 %
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Allowance for loan losses (dollars in millions)	$ 404	$ 453	$ 481	(11)%
Enterprise net interest spread	2.55%	2.33%	2.39%	0.22 %
Enterprise interest-earning assets (average dollars in billions)	$ 41.4	$ 40.9	$ 44.3	1 %

* Percentage not meaningful.

Customer Activity Metrics

- DARTs are the predominant driver of commissions revenue from our customers.
- Average commission per trade is an indicator of changes in our customer mix, product mix and/or product pricing.
- Margin receivables represent credit extended to customers to finance their purchases of securities by borrowing against securities they own and are a key driver of net operating interest income.

- End of period brokerage accounts, net new brokerage accounts and brokerage account attrition rate are indicators of our ability to attract and retain brokerage customers. The brokerage account attrition rate is calculated by dividing attriting brokerage accounts, which are gross new brokerage accounts less net new brokerage accounts, by total brokerage accounts at the previous period end.
- Changes in customer assets are an indicator of the value of our relationship with the customer. An increase in customer assets generally indicates that the use of our products and services by existing and new customers is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities.
- Net new brokerage assets are total inflows to all new and existing brokerage accounts less total outflows from all closed and existing brokerage accounts and are a general indicator of the use of our products and services by new and existing brokerage customers.
- Brokerage related cash is an indicator of the level of engagement with our brokerage customers and is a key driver of net operating interest income.

Company Financial Metrics

- Corporate cash is an indicator of the liquidity at the parent company. It is the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. See Liquidity and Capital Resources for a reconciliation of this non-GAAP measure to the comparable GAAP measure.
- E*TRADE Financial Tier 1 leverage ratio is Tier 1 capital divided by average total assets for leverage capital purposes for the parent company. E*TRADE Financial Tier 1 common ratio is Tier 1 capital less elements of Tier 1 capital that are not in the form of common equity, such as trust preferred securities, divided by total risk-weighted assets for the parent company. The Tier 1 leverage and Tier 1 common ratios are non-GAAP measures as the parent company was not yet held to such regulatory capital requirements and are indications of E*TRADE Financial's capital adequacy. See Liquidity and Capital Resources for a reconciliation of these non-GAAP measures to the comparable GAAP measures.
- E*TRADE Bank Tier 1 leverage ratio is Tier 1 capital divided by adjusted total assets for E*TRADE Bank and is an indication of E*TRADE Bank's capital adequacy.
- Special mention loan delinquencies are loans 30-89 days past due and are an indicator of the expected trend for charge-offs in future periods as these loans have a greater propensity to migrate into nonaccrual status and ultimately charge-off.
- Allowance for loan losses is an estimate of probable losses inherent in the loan portfolio as of the balance sheet date and is typically equal to management's forecast of loan losses in the twelve months following the balance sheet date as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as troubled debt restructurings ("TDR").
- Enterprise interest-earning assets, in conjunction with our enterprise net interest spread, are indicators of our ability to generate net operating interest income.

Recent Significant Events

*Received Regulatory Approval to Operate E*TRADE Bank at a 9.0% Tier 1 Leverage Ratio and to Move Broker-Dealers from under E*TRADE Bank*

- We received regulatory approval to operate E*TRADE Bank at a 9.0% Tier 1 leverage ratio, reflecting significant progress on our capital plan.
- In addition, we received regulatory approval to move our broker-dealers, E*TRADE Securities LLC and E*TRADE Clearing LLC out from under E*TRADE Bank. The revised organizational structure provides increased capital flexibility as it enables us to dividend excess regulatory capital at our broker-dealers to the parent. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend of $434 million to the parent company. We plan to move E*TRADE Clearing LLC later in 2015.

*$300 Million in Dividends Issued from E*TRADE Bank to the Parent Company*

- We received approval from our regulators for $300 million in dividends from E*TRADE Bank to the parent company during 2014.

Elimination of $400 Million of Corporate Debt and Establishment of a $200 million Credit Facility at the Parent Company

- In November 2014, we issued $540 million of 5 3/8% Senior Notes due 2022. We used the net proceeds together with approximately $460 million of existing corporate cash to redeem $435 million of 6 3/4% Senior Notes due 2016 and $505 million of 6% Senior Notes due 2017, reducing our total corporate debt by $400 million and extending the maturity profile with no debt maturing until 2019.
- In addition, in November 2014 we entered into a new $200 million senior secured revolving credit facility as an additional source of liquidity for the parent company.

*Launch of New Brand Platform - Type E**

- We launched a new brand platform, Type E*. This campaign underscores our commitment to do more for, and build deeper relationships with, our customers.

Sale of the Market Making Business and Related Order Flow Agreement

- We completed the sale of the market making business, G1 Execution Services, LLC, to an affiliate of Susquehanna on February 10, 2014, for $76 million. The sale of the market making business did not have a material impact on our results of operations as the net impact of the removal of principal transaction revenue and associated operating expenses, predominately in compensation and clearing expenses, was offset by an expected increase in order flow revenue as a result of routing all of our order flow to third parties.
- Additionally, we entered into an order flow agreement whereby we agreed, subject to best execution standards, to route 70% of our customer equity flow to G1 Execution Services, LLC over the next five years.

Reduction of Legacy Risks

- We completed the sale of $0.8 billion of one- to four-family loans modified as TDRs and recognized a net gain of approximately $7 million on the sale.
- We sold our remaining $17 million in amortized cost of our non-agency CMO portfolio and recognized a gain of $6 million on the sale.
- We terminated $100 million of our high-cost securities sold under agreements to repurchase and recognized a loss on early extinguishment of debt of $12 million.

Completed First Official Stress Test under Dodd-Frank Act

- We submitted our first official stress test prior to March 31, 2014 as required under the Dodd-Frank Act, and received feedback from the OCC on our submission in the second quarter of 2014. While the details of our results are not public, we remained well above the regulatory well-capitalized levels for all capital ratios across all scenarios. We were satisfied with the feedback around our stress testing process, approach and methodologies.

Enhancements to Our Trading and Investing Products and Services

- We launched several mobile enhancements, including a new iPhone® application for iOS 8, with touch ID fingerprint authentication, and a home screen widget containing market and watch list information, as well as an application for the Amazon Fire Phone.
- We made improvements to our website, including revamping the Fixed Income Solutions Center with updated tools and resources.
- We enhanced and added more functionality to our active trader platform, most prominently a more fulsome integration of FX trading.
- We evolved our offering suite through the launch of browser-based trading, enabling real-time monitoring and execution.
- We launched a new nimble content management system for www.etrade.com, which gives us the tools and flexibility to deliver faster and more streamlined Web updates to our prospects and customers.

Market Recognition

- Our corporate services business was rated #1 for client satisfaction and loyalty for the third consecutive year by Group Five, an independent consulting and research firm, in their 2014 Stock Plan Administration Study Industry Report.

EARNINGS OVERVIEW

2014 Compared to 2013

We generated net income of $293 million, or $1.00 per diluted share, on total net revenue of $1.8 billion for the year ended December 31, 2014. Net operating interest income increased 11% to $1.1 billion for the year ended December 31, 2014 compared to 2013, which was driven primarily by the size and mix of the balance sheet as well as an increase in net interest spread. Commissions, fees and service charges and other revenue increased 11% to $680 million for the year ended December 31, 2014, compared to 2013, which was driven primarily by increased order flow revenue and advisor management fees, in addition to increased trading activity. The increases were partially offset by a decrease in principal transactions following our exit of the market making business, and a decrease in gains on loans and securities, net for the year ended December 31, 2014 when compared to 2013.

Provision for loan losses decreased 75% to $36 million for the year ended December 31, 2014 compared to 2013. The decrease was driven primarily by improving economic conditions, as evidenced by the lower levels of delinquent loans in the one- to four-family and home equity loan portfolios, lower net charge-offs, home price improvement and loan portfolio run-off. Total operating expenses decreased 10% to $1.1 billion for the year ended December 31, 2014, compared to 2013, which was driven primarily by $142 million in impairment of goodwill that was recognized in 2013 which increased operating expenses for the year ended December 31, 2013.

The following sections describe in detail the changes in key operating factors and other changes and events that affected net revenue, provision for loan losses, operating expense, other income (expense) and income tax expense.

Revenue

The components of revenue and the resulting variances are as follows (dollars in millions):

	Year Ended December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Net operating interest income	$ 1,088	$ 982	$ 106	11 %
Commissions	456	420	36	9 %
Fees and service charges	186	155	31	20 %
Principal transactions	10	73	(63)	(86)%
Gains on loans and securities, net	36	61	(25)	(41)%
Net impairment	—	(3)	3	*
Other revenues	38	35	3	9 %
Total non-interest income	726	741	(15)	(2)%
Total net revenue	$ 1,814	$ 1,723	$ 91	5 %

* Percentage not meaningful.

Net Operating Interest Income

Net operating interest income increased 11% to $1.1 billion for the year ended December 31, 2014 compared to 2013. Net operating interest income is earned primarily through investing deposits and customer payables in assets including: available-for-sale securities, held-to-maturity securities, margin receivables and real estate loans.

The following table presents enterprise average balance sheet data and enterprise income and expense data for our operations, as well as the related net interest spread, yields and rates prepared on the basis required by the SEC’s Industry Guide 3, "*Statistical Disclosure by Bank Holding Companies,"* (dollars in millions):

	Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Operating Interest Inc./Exp.	Average Yield/Cost	Average Balance	Operating Interest Inc./Exp.	Average Yield/Cost	Average Balance	Operating Interest Inc./Exp.	Average Yield/Cost
Enterprise interest-earning assets:									
Loans(1)	$ 7,298	$ 297	4.07%	$ 9,569	$ 395	4.12%	$ 12,028	$ 496	4.13%
Available-for-sale securities	12,761	289	2.26%	13,074	280	2.14%	15,237	361	2.37%
Held-to-maturity securities	11,288	328	2.90%	9,772	255	2.61%	8,409	237	2.82%
Margin receivables	7,446	264	3.55%	5,929	224	3.78%	5,471	216	3.95%
Cash and equivalents	1,279	2	0.15%	1,434	3	0.20%	1,668	4	0.21%
Segregated cash	736	1	0.10%	457	—	0.10%	956	—	0.08%
Securities borrowed and other	629	98	15.68%	657	51	7.76%	577	49	8.43%
Total enterprise interest-earning assets	41,437	1,279	3.08%	40,892	1,208	2.95%	44,346	1,363	3.07%
Non-operating interest-earning and non-interest earning assets(2)	4,383			4,624			5,069		
Total assets	$ 45,820			$ 45,516			$ 49,415		
Enterprise interest-bearing liabilities:									
Deposits:									
Sweep deposits	$ 19,168	7	0.03%	$ 19,432	11	0.06%	$ 20,776	15	0.07%
Complete savings deposits	4,009	1	0.01%	4,582	1	0.01%	5,389	3	0.07%
Other money market and savings deposits	867	—	0.01%	941	—	0.01%	1,016	1	0.07%
Checking deposits	1,069	—	0.03%	1,007	—	0.03%	890	1	0.08%
Time deposits	58	—	0.55%	81	1	1.11%	166	4	2.59%
Customer payables	6,417	8	0.13%	5,494	9	0.15%	5,649	11	0.18%
Securities sold under agreements to repurchase	3,993	123	3.07%	4,466	148	3.32%	4,775	158	3.32%
Federal Home Loan Bank ("FHLB") advances and other borrowings	1,288	65	5.05%	1,291	68	5.29%	2,465	93	3.76%
Securities loaned and other	1,518	—	0.03%	860	—	0.02%	676	—	0.04%
Total enterprise interest-bearing liabilities	38,387	204	0.53%	38,154	238	0.62%	41,802	286	0.68%
Non-operating interest-bearing and non-interest bearing liabilities(3)	2,272			2,490			2,580		
Total liabilities	40,659			40,644			44,382		
Total shareholders' equity	5,161			4,872			5,033		
Total liabilities and shareholders' equity	$ 45,820			$ 45,516			$ 49,415		
Excess of enterprise interest-earning assets over enterprise interest-bearing liabilities/Enterprise net interest income/Spread	$ 3,050	$ 1,075	2.55%	$ 2,738	$ 970	2.33%	$ 2,544	$ 1,077	2.39%

Reconciliation from enterprise net interest income to net operating interest income (dollars in millions):

	Year Ended December 31,		
	2014	2013	2012
Enterprise net interest income	$ 1,075	$ 970	$ 1,077
Taxable equivalent interest adjustment	(1)	(1)	(1)
Customer assets held by third parties(4)	14	13	9
Net operating interest income	$ 1,088	$ 982	$ 1,085

(1) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in operating interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.

(2) Non-operating interest-earning and non-interest earning assets consist of property and equipment, net, goodwill, other intangibles, net and other assets that do not generate operating interest income. Some of these assets generate corporate interest income.

(3) Non-operating interest-bearing and non-interest bearing liabilities consist of corporate debt and other liabilities that do not generate operating interest expense. Some of these liabilities generate corporate interest expense.

(4) Includes revenue earned on average customer assets of $14.4 billion, $11.5 billion and $4.3 billion for the years ended December 31, 2014, 2013 and 2012 respectively, held by third parties outside the Company, including money market funds and sweep deposit accounts at unaffiliated financial institutions. Fees earned on the customer assets are based on the federal funds rate plus a negotiated spread or other contractual arrangement with the third party institutions.

	Year Ended December 31,		
	2014	2013	2012
Enterprise net interest:			
Spread	2.55%	2.33%	2.39 %
Margin (net yield on interest-earning assets)	2.59%	2.37%	2.43 %
Ratio of enterprise interest-earning assets to enterprise interest-bearing liabilities	107.95%	107.18%	106.09 %
Return on average:			
Total assets	0.64%	0.19%	(0.23)%
Total shareholders’ equity	5.69%	1.77%	(2.24)%
Average total shareholders’ equity to average total assets	11.26%	10.70%	10.19 %

The fluctuation in enterprise interest-earning assets is driven primarily by changes in enterprise interest-bearing liabilities, specifically deposits and customer payables. Average enterprise interest-earning assets increased 1% to $41.4 billion for the year ended December 31, 2014, compared to 2013. The increase in average enterprise interest-earning assets was primarily a result of increases in average held-to-maturity securities and margin receivables, which were partially offset by a decrease in average loans compared to 2013.

Average enterprise interest-bearing liabilities increased 1% to $38.4 billion for the year ended December 31, 2014, compared to 2013. The increase in average enterprise interest-bearing liabilities was primarily due to increases in average customer payables and securities loaned and other, partially offset by decreases in average deposits and securities sold under agreements to repurchase.

As part of our strategy to strengthen our overall financial and franchise position, we focused on improving our capital ratios by reducing risk and deleveraging the balance sheet. Our deleveraging strategy included transferring customer deposits to third party institutions. At December 31, 2014, $15.5 billion of our customers' assets were held at third party institutions, including third party banks and money market funds. Approximately 72% of these off-balance sheet assets resulted from our deleveraging efforts. We estimate the impact of our deleveraging efforts on net operating interest income to be approximately 125 basis points based on the estimated current re-investment rates on these assets, less approximately 28 basis points of cost associated with holding these assets on our balance sheet, primarily FDIC insurance premiums. We consider our deleveraging initiatives to be complete and maintain the ability to bring the majority of these customer assets back on the balance sheet with appropriate notification to the third party institutions and customer consent, as appropriate.

Enterprise net interest spread increased by 22 basis points to 2.55% for the year ended December 31, 2014 compared to 2013. Enterprise net interest spread is driven by changes in average balances and average interest rates earned or paid on those balances. During the year ended December 31, 2014, the increase in enterprise net interest spread was driven primarily by the growth in margin receivables and increased revenue earned from our securities lending activities, along with lower wholesale borrowing costs due to a decrease in securities sold under agreements to repurchase. These increases were partially offset by the continued run-off in loans and lower rates earned on margin receivables. Enterprise net interest spread may further fluctuate based on the size and mix of the balance sheet, as well as the impact from the level of interest rates.

Commissions

Commissions revenue increased 9% to $456 million for the year ended December 31, 2014 compared to 2013. The main factors that affect commissions are DARTs, average commission per trade and the number of trading days.

DART volume increased 12% to 168,474 for the year ended December 31, 2014 compared to 2013. Option-related DARTs as a percentage of total DARTs represented 22% of trading volume for the year ended December 31, 2014, compared to 24% in 2013.

Average commission per trade decreased 3% to $10.81 for the year ended December 31, 2014 compared to 2013. Average commission per trade is impacted by customer mix and the different commission rates on various trade types (e.g. equities, options, fixed income, stock plan, exchange-traded funds, mutual funds, forex and cross border). Accordingly, changes in the mix of trade types will impact average commission per trade.

Fees and Service Charges

Fees and service charges increased 20% to $186 million for the year ended December 31, 2014 compared to 2013. The table below shows the components of fees and service charges and the resulting variances (dollars in millions):

	Year Ended December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Order flow revenue	$ 92	$ 72	$ 20	28 %
Mutual fund service fees	23	21	2	10 %
Advisor management fees	23	14	9	64 %
Foreign exchange revenue	16	15	1	7 %
Reorganization fees	8	9	(1)	(11)%
Other fees and service charges	24	24	—	0 %
Total fees and service charges	$ 186	$ 155	$ 31	20 %

The increase in fees and services charges for the year ended December 31, 2014, compared to 2013, was driven primarily by increased order flow revenue as a result of increased trading volumes and as E*TRADE Securities LLC began routing all of its order flow to third parties following the sale of G1 Execution Services, LLC which was completed on February 10, 2014. In addition, advisor management fees increased, driven by assets in managed accounts within our retirement, investing and savings products, which were $3.1 billion at December 31, 2014, compared to $2.4 billion at December 31, 2013.

Principal Transactions

Principal transactions decreased 86% to $10 million for the year ended December 31, 2014 compared to 2013. Principal transactions were derived from our market making business in which we acted as a market-maker for our brokerage customers' orders as well as orders from third party customers. On February 10, 2014, we completed the sale of the market making business to an affiliate of Susquehanna and no longer generate principal transactions revenue.

Gains on Loans and Securities, Net

Gains on loans and securities, net decreased 41% to $36 million for the year ended December 31, 2014 compared to 2013. The table below shows the activity and resulting variances (dollars in millions):

	Year Ended December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Gains (losses) on loans, net	$ 4	$ (1)	$ 5	*
Gains on available-for-sale securities, net	42	61	(19)	(31)%
Hedge ineffectiveness	(10)	1	(11)	*
Gains on securities, net	32	62	(30)	(48)%
Gains on loans and securities, net	$ 36	$ 61	$ (25)	(41)%

* Percentage not meaningful.

Gains on loans and securities, net for the year ended December 31, 2014 included a $7 million gain recognized on the sale of one- to four-family loans modified as TDRs and a $6 million gain recognized on the sale of our remaining $17 million in amortized cost of available-for-sale non-agency CMOs.

Provision for Loan Losses

Provision for loan losses decreased 75% to $36 million for the year ended December 31, 2014 compared to 2013. The decrease in provision for loan losses was driven primarily by improving economic conditions, as evidenced by the lower levels of delinquent loans in the one- to four-family and home equity loan portfolios, lower net charge-offs, home price improvement and loan portfolio run-off for the year ended December 31, 2014. The reduction in the provision for loan losses was partly offset by enhancements in our quantitative allowance methodology. During the year ended December 31, 2014, we enhanced our quantitative allowance methodology to identify higher risk home equity lines of credit and extend the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on a subset of identified higher risk home equity lines of credit. These enhancements drove the migration of estimated losses previously captured on these loans from the qualitative component to the quantitative component of the general allowance, and drove the majority of the provision for loan losses within the home equity portfolio during the year ended December 31, 2014. The timing and magnitude of the provision for loan losses is affected by many factors and we anticipate variability, particularly as home equity lines of credit begin converting to amortizing loans.

For the year ended December 31, 2013, we evaluated and refined our default assumptions related to a subset of the home equity line of credit portfolio that will require borrowers to repay the loan in full at the end of the draw period, commonly referred to as "balloon loans". We recorded additional provision related to $235 million of balloon loans at December 31, 2013. We increased our default assumptions and extended the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on the higher risk balloon loans as a result of our evaluation. The overall impact of these refinements drove the substantial majority of provision for loan losses during the year ended December 31, 2013.

Operating Expense

The components of operating expense and the resulting variances are as follows (dollars in millions):

	Year Ended December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Compensation and benefits	$ 412	$ 363	$ 49	13 %
Advertising and market development	120	108	12	11 %
Clearing and servicing	94	124	(30)	(24)%
FDIC insurance premiums	79	104	(25)	(24)%
Professional services	112	85	27	32 %
Occupancy and equipment	79	73	6	8 %
Communications	71	69	2	3 %
Depreciation and amortization	78	89	(11)	(12)%
Amortization of other intangibles	22	24	(2)	(8)%
Impairment of goodwill	—	142	(142)	*
Facility restructuring and other exit activities	8	28	(20)	(71)%
Other operating expenses	70	66	4	6 %
Total operating expense	$ 1,145	$ 1,275	$ (130)	(10)%

* Percentage not meaningful.

Compensation and Benefits

Compensation and benefits increased 13% to $412 million for the year ended December 31, 2014 compared to 2013. The increase resulted primarily from increased salaries expense due to increased headcount and increased incentive compensation when compared to 2013.

Advertising and Market Development

Advertising and market development expense increased 11% to $120 million for the year ended December 31, 2014 compared to 2013. The increase in advertising and market development resulted primarily from the launch of Type E*, our new brand platform during the year ended December 31, 2014, in addition to lower advertising and market development expenses during the year ended December 31, 2013 driven by the expense reduction initiatives in the prior period.

Clearing and Servicing

Clearing and servicing decreased 24% to $94 million for the year ended December 31, 2014 compared to 2013. The decrease resulted primarily from a decrease in clearing fees as a result of the sale of the market making business which was partially offset by costs associated with an increase in trading volumes, when compared to 2013. Additionally, servicing fees decreased when compared to the same period in 2013 as the loan portfolio continued to run off.

FDIC Insurance Premiums

FDIC insurance premiums decreased 24% to $79 million for the year ended December 31, 2014 compared to the same period in 2013. The decrease was due to the sale of $0.8 billion of our one- to four-family loans modified as TDRs during the second quarter of 2014, as well as continued improvement and quality of our balance sheet, improving capital ratios and overall risk profile when compared to 2013. TDRs are considered underperforming assets and are assessed at a higher rate in the FDIC insurance calculation. We expect sustained savings on FDIC insurance premiums as a result of the sale, and as we continue to improve the quality of the balance sheet and capital ratios.

Professional Services

Professional services increased 32% to $112 million for the year ended December 31, 2014 compared to 2013, primarily driven by professional services engagements focused on improving the customer experience and overall product offering, as well as our continued enterprise risk management build-out.

Impairment of Goodwill

Impairment of goodwill was $142 million for the year ended December 31, 2013. At the end of June 2013, we decided to exit the market making business, and as a result recorded $142.4 million in goodwill impairment, representing the entire carrying amount of goodwill allocated to this business. There were no similar charges during the year ended December 31, 2014.

Facility Restructuring and Other Exit Activities

Facility restructuring and other exit activities were $8 million for the year ended December 31, 2014 compared to $28 million for 2013. The costs in 2014 were driven by severance costs incurred primarily related to our exit of the market making business, and were partially offset by the $4 million gain on the sale of that business, which was completed in February 2014. The costs in 2013 were driven primarily by severance costs incurred as part of the expense reduction initiatives in prior periods.

Other Income (Expense)

Other income (expense) increased 65% to $181 million for the twelve months ended December 31, 2014 compared to the same period in 2013 as shown in the following table (dollars in millions):

	Year Ended December 31,		Variance 2014 vs. 2013	
	2014	**2013**	**Amount**	**%**
Corporate interest expense	$ (113)	$ (114)	$ 1	(1)%
Losses on early extinguishment of debt	(71)	—	(71)	*
Equity in income of investments and other	3	4	(1)	(25)%
Total other income (expense)	$ (181)	$ (110)	$ (71)	65 %

* Percentage not meaningful.

Total other income (expense) primarily consisted of corporate interest expense of $113 million for year ended December 31, 2014, compared to $114 million in 2013. In addition, during the year ended December 31, 2014 we recognized $12 million of losses on early extinguishment of debt as a result of the early extinguishment of $100 million in repurchase agreements, and $59 million of losses on early extinguishment of debt as a result of the redemption of all of the outstanding 6 3/4% Notes and 6% Notes, a total of $940 million in aggregate principal amount.

Income Tax Expense

Income tax expense was $159 million and $109 million for the years ended December 31, 2014 and 2013, respectively. The effective tax rate was 35% for the year ended December 31, 2014, compared to 56% in 2013. Income tax expense for the year ended December 31, 2014 included $8 million of benefit primarily related to the settlement of a state tax audit and $8 million of benefit related to a recent change to the New York state tax code and its impact on state deferred taxes.

At the end of June 2013, we decided to exit the market making business, and as a result recorded $142 million in goodwill impairment during the year ended December 31, 2013. The $142 million goodwill impairment charge associated with the market making business was non-deductible for tax purposes. In addition, the overall state apportionment increased significantly in California as a result of the decision to exit of the market making business. Therefore, we recognized a tax benefit of $24 million during the year ended December 31, 2013, the majority of which consisted of releasing valuation allowances for net operating losses, research and development credits and revaluation of other deferred tax assets relating to California. Excluding the impact of our decision to exit of the market making business, the effective tax rate for the year ended December 31, 2013 would have been 40%, calculated in the following table (dollars in millions):

	For the Year Ended December 31, 2013		
	Pre-tax Income	Tax Expense (Benefit)	Tax Rate
Taxes and tax rate before impact of exit of market making business	$ 337	$ 133	40%
Impact of exit of market making business:			
Goodwill impairment charge	(142)	—	
State apportionment change	—	(24)	
Income taxes and tax rate as reported	$ 195	$ 109	56%

Valuation Allowance

Our net deferred tax asset was $951 million and $1,239 million at December 31, 2014 and 2013, respectively. We are required to establish a valuation allowance for deferred tax assets and record a corresponding increase to income tax expense if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized. If we were to conclude that a valuation allowance was required, the resulting loss could have a material adverse effect on our financial condition and results of operations. As of December 31, 2014, we did not establish a valuation allowance against our federal deferred tax assets as we believe that it is more likely than not that all of these assets will be realized. Approximately 40% of our existing federal deferred tax assets are not related to net operating losses and therefore, have no expiration date. We expect to utilize the majority of the existing federal deferred tax assets within the next four years.

Our evaluation of the need for a valuation allowance focused on identifying significant, objective evidence that we will be able to realize the deferred tax assets in the future. We determined that our expectations regarding future earnings are objectively verifiable due to various factors. One factor is the consistent profitability of the core business, the trading and investing segment, which has generated substantial income for each of the last 11 years, including through uncertain economic and regulatory environments. The core business is driven by brokerage customer activity and includes trading, brokerage related cash, margin lending, retirement and investing, and other brokerage related activities. These activities drive variable expenses that correlate to the volume of customer activity, which has resulted in stable, ongoing profitability.

Another factor is the mitigation of losses in the balance sheet management segment, which generated a large net operating loss in 2007 caused by the crisis in the residential real estate and credit markets. Much of this loss came from the sale of the asset-backed securities portfolio and credit losses from the mortgage loan portfolio. We no longer hold any of those asset-backed securities and shut down mortgage loan acquisition activities in 2007. In effect, the key business activities that led to the generation of the deferred tax assets were shut down over seven years ago. In addition, we have realized the benefits of various credit loss mitigation activities and improving economic conditions, including home price improvement related to our loan portfolio. As a result, the losses have continued to decline significantly and the balance sheet management segment has been profitable since 2012.

We maintain a valuation allowance for certain of our state deferred tax assets as we have concluded that it is more likely than not that they will not be realized. At December 31, 2014, we had total state deferred tax assets of approximately $143 million related to our state net operating loss carryforwards and temporary differences with a valuation allowance of $48 million against such deferred tax assets.

Tax Ownership Change

During the third quarter of 2009, we exchanged $1.7 billion principal amount of interest-bearing debt for an equal principal amount of non-interest-bearing convertible debentures. Subsequent to the 2009 Debt Exchange, $592 million and $129 million debentures were converted into 57 million and 13 million shares of common stock during the third and fourth quarters of 2009, respectively. As a result of these conversions, we believe we experienced a tax ownership change during the third quarter of 2009.

As of the date of the ownership change, we had federal NOLs available to carryforward of approximately $1,886 million. This amount includes $480 million in federal NOLs that were recorded in the third quarter of 2012 due to amended tax returns we filed that related primarily to additional tax deductions on the 2009 Debt Exchange and additional tax losses on bad debts. Section 382 imposes an annual limitation on the use of a corporation's NOLs, certain recognized built-in losses and other carryovers after an "ownership change" occurs. Section 382 rules governing when a change in ownership occurs are complex and subject to interpretation; however, an ownership change generally occurs when there has been a cumulative change in the stock ownership of a corporation by certain "5% shareholders" of more than 50 percentage points over a rolling three-year period.

Section 382 imposes an annual limitation on the amount of post-ownership change taxable income a corporation may offset with pre-ownership change NOLs. In general, the annual limitation is determined by multiplying the value of the corporation's stock immediately before the ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Any unused portion of the annual limitation is available for use in future years until such NOLs are scheduled to expire (in general, NOLs may be carried forward 20 years). In addition, the limitation may, under certain circumstances, be increased or decreased by built-in gains or losses, respectively, which may be present with respect to assets held at the time of the ownership change that are recognized in the five-year period (one-year for loans) after the ownership change. The use of NOLs arising after the date of an ownership change would not be affected unless a corporation experienced an additional ownership change in a future period.

We believe the tax ownership change will extend the period of time it will take to fully utilize our pre-ownership change NOLs, but will not limit the total amount of pre-ownership change federal NOLs we can utilize. Our updated estimate is that we will be subject to an overall annual limitation on the use of our pre-ownership change NOLs of approximately $194 million. The overall pre-ownership change federal NOLs, which were approximately $1,886 million, have a statutory carryforward period of 20 years (the majority of which expire in 13 years). As a result, we believe we will be able to fully utilize these NOLs in future periods.

Our ability to utilize the pre-ownership change NOLs is dependent on our ability to generate sufficient taxable income over the duration of the carryforward periods and will not be impacted by our ability or inability to generate taxable income in an individual year.

2013 Compared to 2012

We generated net income of $86 million, or $0.29 per diluted share, on total net revenue of $1.7 billion for the year ended December 31, 2013. Net operating interest income decreased 10% to $982 million for the year ended December 31, 2013 compared to 2012, which was driven primarily by a decrease in enterprise interest-earning assets and enterprise interest-bearing liabilities as a result of our deleveraging initiatives. Commissions, fees and service charges, principal transactions and other revenue increased 8% to $683 million for the year ended December 31, 2013, compared to 2012, which was driven primarily by an increase in trading activity during 2013. In addition, gains on loans and securities, net decreased 70% to $61 million for the year ended December 31, 2013 compared to 2012, primarily due to increased gains in 2012 as a result of deleveraging activities.

Provision for loan losses decreased 60% to $143 million for the year ended December 31, 2013 compared to 2012. The decline was driven primarily by improving economic conditions, including home price improvement and continued loan portfolio run-off. Total operating expenses increased 10% to $1.3 billion for the year ended December 31, 2013 compared to 2012. This increase was driven primarily by $142 million in impairment of goodwill that was recognized in the second quarter of 2013 due to our decision to exit the market making business, which was partially offset by a decrease in advertising and marketing expense for the year ended December 31, 2013 compared to 2012.

The following sections describe in detail the changes in key operating factors and other changes and events that affected net revenue, provision for loan losses, operating expense, other income (expense) and income tax expense (benefit).

Revenue

The components of revenue and the resulting variances are as follows (dollars in millions):

	Year Ended December 31,		Variance 2013 vs. 2012	
	2013	2012	Amount	%
Net operating interest income	$ 982	$ 1,085	$ (103)	(10)%
Commissions	420	378	42	11 %
Fees and service charges	155	122	33	27 %
Principal transactions	73	93	(20)	(22)%
Gains on loans and securities, net	61	201	(140)	(70)%
Net impairment	(3)	(17)	14	(86)%
Other revenues	35	38	(3)	(5)%
Total non-interest income	741	815	(74)	(9)%
Total net revenue	$ 1,723	$ 1,900	$ (177)	(9)%

Net Operating Interest Income

Net operating interest income decreased 10% to $982 million for the year ended December 31, 2013 compared to 2012. Average enterprise interest-earning assets decreased 8% to $40.9 billion for the year ended December 31, 2013 compared to 2012. This was primarily a result of decreases in average available-for-sale securities and average loans, which were partially offset by an increase in average held-to-maturity securities.

Average enterprise interest-bearing liabilities decreased 9% to $38.2 billion for the year ended December 31, 2013 compared to 2012. The decrease in average enterprise interest-bearing liabilities was due primarily to decreases in average deposits and average FHLB advances and other borrowings as a result of our deleveraging strategy.

Our deleveraging strategy included transferring customer deposits to third party institutions, including $3.2 billion of sweep deposits transferred during the year ended December 31, 2013. At December 31, 2013, our customers held $13.8 billion of assets at third party institutions, including third party banks and money market funds. Approximately 68% of these off-balance sheet assets resulted from our deleveraging efforts.

Enterprise net interest spread decreased by 6 basis points to 2.33% for the year ended December 31, 2013 compared to 2012, due to lower yields on margin and reinvestment in securities at lower rates in the current interest rate environment, partially offset by lower rates on customer payables and deposits.

Commissions

Commissions revenue increased 11% to $420 million for the year ended December 31, 2013 compared to 2012, driven primarily from DART volumes increasing 9% to 150,743 for the year ended December 31, 2013 compared to 2012. Option-related DARTs as a percentage of total DARTs represented 24% of trading volume for both years ended December 31, 2013 and 2012. Average commission per trade increased 1% to $11.13 for the year ended December 31, 2013 compared to 2012.

Fees and Service Charges

Fees and service charges increased 27% to $155 million for the year ended December 31, 2013 compared to 2012. The table below shows the components of fees and service charges and the resulting variances (dollars in millions):

	Year Ended December 31,		Variance 2013 vs. 2012	
	2013	2012	Amount	%
Order flow revenue	$ 72	$ 58	$ 14	24%
Mutual fund service fees	21	17	4	28%
Advisor management fees	14	6	8	116%
Foreign exchange revenue	15	10	5	44%
Reorganization fees	9	8	1	20%
Other fees and service charges	24	23	1	3%
Total fees and service charges	$ 155	$ 122	$ 33	27%

The increase in fees and services charges for the year ended December 31, 2013 was driven primarily by increased order flow revenue due to increased trading activity, as well as increased advisor management fees driven from managed accounts within our retirement, investing and savings products, which were $2.4 billion at December 31, 2013, compared to $1.3 billion at December 31, 2012.

Principal Transactions

Principal transactions decreased 22% to $73 million for the year ended December 31, 2013 compared to 2012. The decrease in principal transactions revenue was driven primarily by a decrease in market making trading volume along with a decrease in average revenue per share earned.

Gains on Loans and Securities, Net

Gains on loans and securities, net decreased 70% to $61 million for the year ended December 31, 2013 compared to 2012. The table below shows the activity and resulting variances (dollars in millions):

	Year Ended December 31,		Variance 2013 vs. 2012	
	2013	2012	Amount	%
Gains (losses) on loans, net	$ (1)	$ 1	$ (2)	*
Gains on available-for-sale securities, net	61	207	(146)	(71)%
Hedge ineffectiveness	1	(7)	8	*
Gains on securities, net	62	200	(138)	(69)%
Gains on loans and securities, net	$ 61	$ 201	$ (140)	(70)%

* Percentage not meaningful.

The decrease in gains on loans and securities, net for the year ended December 31, 2013, was driven by additional gains recognized during the year ended December 31, 2012 from the sale of available-for-sale securities as a result of our deleveraging initiatives, primarily related to a reduction in wholesale funding obligations.

Net Impairment

We recognized $3 million and $17 million of net impairment during the years ended December 31, 2013 and 2012, respectively, on certain securities in our non-agency CMO portfolio due to continued deterioration in the expected credit performance of the underlying loans in those specific securities. The gross other-than-temporary impairment ("OTTI") and the noncredit portion of OTTI, which was or had been previously recorded through other comprehensive income (loss), are shown in the table below (dollars in millions):

	Year Ended December 31, 2013	2012
Other-than-temporary impairment ("OTTI")	$ (1)	$ (20)
Less: noncredit portion of OTTI recognized into (out of) other comprehensive income (loss) (before tax)	(2)	3
Net impairment	$ (3)	$ (17)

Provision for Loan Losses

Provision for loan losses decreased 60% to $143 million for the year ended December 31, 2013 compared to 2012. The decrease in provision for loan losses was driven primarily by improving economic conditions, as evidenced by the lower levels of delinquent loans in the one- to four-family and home equity loan portfolios, home price improvement and loan portfolio run-off. The decrease was partially offset by additional provision recorded related to $235 million of balloon loans within the home equity line of credit portfolio at December 31, 2013. We increased our default assumptions and extended the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on the higher risk balloon loans as a result of our evaluation. The overall impact of these refinements drove the substantial majority of provision for loan losses during the year ended December 31, 2013.

During the year ended December 31, 2012, provision for loan losses included approximately $50 million in charge-offs associated with newly identified bankruptcy filings with approximately 80% related to prior years. We utilize third party loan servicers to obtain bankruptcy data on our borrowers, and during the third quarter of 2012 we identified an increase in bankruptcies reported by one specific servicer. In researching this increase, we discovered that the servicer had not been reporting historical bankruptcy data on a timely basis. As a result, we implemented an enhanced procedure around all servicer reporting to corroborate bankruptcy reporting with independent third party data. Through this additional process, approximately $90 million of loans were identified in which servicers failed to report the bankruptcy filing to us, approximately 90% of which were current at the end of the third quarter of 2012. As a result, these loans were written down to the estimated current value of the underlying property less estimated selling costs, or approximately $40 million, during the third quarter of 2012. These charge-offs resulted in an increase to provision for loan losses of $50 million for the year ended December 31, 2012.

Operating Expense

The components of operating expense and the resulting variances are as follows (dollars in millions):

	Year Ended December 31,		Variance 2013 vs. 2012	
	2013	2012	Amount	%
Compensation and benefits	$ 363	$ 353	$ 10	3 %
Advertising and market development	108	139	(31)	(22)%
Clearing and servicing	124	129	(5)	(4)%
FDIC insurance premiums	104	117	(13)	(12)%
Professional services	85	86	(1)	(1)%
Occupancy and equipment	73	74	(1)	(2)%
Communications	69	73	(4)	(6)%
Depreciation and amortization	89	91	(2)	(2)%
Amortization of other intangibles	24	25	(1)	(7)%
Impairment of goodwill	142	—	142	*
Facility restructuring and other exit activities	28	8	20	269 %
Other operating expenses	66	67	(1)	(1)%
Total operating expense	$ 1,275	$ 1,162	$ 113	10 %

* Percentage not meaningful.

Compensation and Benefits

Compensation and benefits increased 3% to $363 million for the year ended December 31, 2013 compared to 2012. The increase resulted primarily from increased incentive compensation when compared to 2012.

Advertising and Market Development

Advertising and market development expense decreased 22% to $108 million for the year ended December 31, 2013 compared to 2012. The decrease in advertising and marketing were due largely to the planned decrease in advertising expenditures as part of our expense reduction initiatives.

Clearing and Servicing

Clearing and servicing decreased 4% to $124 million for the year ended December 31, 2013 compared to 2012. The decrease resulted primarily from lower servicing fees when compared to 2012 as the loan portfolio continues to run-off. The decrease in servicing fees was offset by increased clearing fees as a result of an increase in DARTs, when compared to 2012.

FDIC Insurance Premiums

FDIC insurance premiums decreased 12% to $104 million for the year ended December 31, 2013 compared to 2012. The decrease for the year ended December 31, 2013 was primarily due to the continued improvement and quality of our balance sheet, improving capital ratios and overall risk profile when compared to 2012.

Impairment of Goodwill

Impairment of goodwill was $142 million for the year ended December 31, 2013. At the end of June 2013, we decided to exit the market making business, and as a result recorded $142 million in goodwill impairment, representing the entire carrying amount of goodwill allocated to this business.

Facility Restructuring and Other Exit Activities

Facility restructuring and other exit activities was $28 million for the year ended December 31, 2013 compared to $8 million for the year ended 2012. These costs were driven primarily by severance incurred as part of our planned expense reduction initiatives, in addition to costs incurred related to our decision to exit the market making business.

Other Income (Expense)

Other income (expense) decreased 79% to $110 million for the year ended December 31, 2013 compared to 2012 as shown in the following table (dollars in millions):

	Year Ended December 31,		Variance 2013 vs. 2012	
	2013	2012	Amount	%
Corporate interest expense	$ (114)	$ (180)	$ 66	(36)%
Losses on early extinguishment of debt:				
Corporate debt	—	(257)	257	*
Wholesale borrowings and other	—	(78)	78	*
Equity in income of investments and other	4	1	3	239 %
Total other income (expense)	$ (110)	$ (514)	$ 404	(79)%

* Percentage not meaningful.

Total other income (expense) included corporate interest expense on interest-bearing corporate debt for the years ended December 31, 2013 and 2012. Corporate interest expense decreased 36% to $114 million for the year ended December 31, 2013 compared to 2012 as a result of the refinance of $1.3 billion in higher coupon corporate debt during the fourth quarter of 2012. Corporate interest expense for the year ended December 31, 2013 was partially offset by a gain of $4 million related to an investment in a venture fund which was included in equity in income of investments and other.

In addition, for the year ended December 31, 2012, $257 million in losses on early extinguishment of corporate debt were recorded, as a result of the early extinguishment of all the 12 1/2% Springing Lien Notes and 7 7/8% Notes during 2012.

We also had $78 million in losses on early extinguishment of wholesale borrowings as a result of the early extinguishment of approximately $1.1 billion in wholesale borrowings during 2012.

Income Tax Expense (Benefit)

Income tax expense was $109 million for the year ended December 31, 2013 compared to a tax benefit of $(18) million in 2012. The effective tax rate was 56% for the year ended December 31, 2013 compared to (14)% in 2012.

With our decision to exit the market making business at the end of June 2013, we recorded a goodwill impairment charge of $142 million, which was non-deductible for tax purposes. In addition, the overall state apportionment increased significantly in California as a result of the decision to exit the market making business. Therefore, we recognized an income tax benefit of $24 million during the year ended December 31, 2013, the majority of which consisted of releasing valuation allowances for net operating losses, research and development credits and revaluation of other deferred tax assets relating to California. Excluding the impact of our decision to exit the market making business, our effective tax rate for the year ended December 31, 2013 would have been 40%.

During the first quarter of 2012, we recorded an income tax benefit of $26 million related to certain losses on the 2009 Debt Exchange that were previously considered non-deductible. Through additional research completed in the first quarter of 2012, we identified that a portion of those losses were incorrectly treated as non-deductible in 2009 and were deductible for tax purposes. The $26 million income tax benefit resulted in a corresponding increase to the net deferred tax asset.

In November 2012, California voters approved Proposition 39, which requires most multistate taxpayers to use a sales factor-only apportionment formula, combined with market–based sourcing for sales, other than sales of tangible personal property, effective for years beginning on or after January 1, 2013. As a result, the overall California apportionment for the Company’s unitary group decreased significantly and we expected this would decrease our taxable income in California in future periods. As a result, we no longer expected to utilize net operating losses in California and we recognized tax expense of $25 million consisting of establishing valuation allowances for California net operating losses, research and development credits and other deferred tax assets.

Valuation Allowance

The net deferred tax asset was $1,239 million and $1,416 million at December 31, 2013 and 2012, respectively. We are required to establish a valuation allowance for deferred tax assets and record a corresponding charge to income tax expense if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized. If we were to conclude that a valuation allowance was required, the resulting loss could have a material adverse effect on our financial condition and results of operations. As of December 31, 2013, we did not establish a valuation allowance against our federal deferred tax assets as we believe that it is more likely than not that all of these assets will be realized.

SEGMENT RESULTS REVIEW

We report operating results in two segments: 1) trading and investing; and 2) balance sheet management. Trading and investing includes retail brokerage products and services; investor-focused banking products; and corporate services. Balance sheet management includes the management of asset allocation; loans previously originated by the Company or purchased from third parties; deposits and customer payables; and credit, liquidity and interest rate risk for the Company as described in the Risk Management section. Costs associated with certain functions that are centrally-managed are separately reported in a corporate/other category. For more information on our segments, see Note 22—Segment Information in Item 8. Financial Statements and Supplementary Data.

Trading and Investing

The following table summarizes trading and investing financial information and key customer activity metrics as of and for years ended December 31, 2014, 2013 and 2012 (dollars in millions, except for key metrics):

	Year Ended December 31,			Variance 2014 vs. 2013	
	2014	2013	2012	Amount	%
Net operating interest income	$ 632	$ 540	$ 641	$ 92	17 %
Commissions	456	420	378	36	9 %
Fees and service charges	185	153	119	32	21 %
Principal transactions	10	73	93	(63)	(86)%
Other revenues	32	31	32	1	3 %
Total net revenue	1,315	1,217	1,263	98	8 %
Total operating expense	766	883	769	(117)	(13)%
Trading and investing income	$ 549	$ 334	$ 494	$ 215	64 %
Key Customer Activity Metrics:					
DARTs	168,474	150,743	138,112	17,731	12 %
Average commission per trade	$ 10.81	$ 11.13	$ 11.01	$ (0.32)	(3)%
Margin receivables (dollars in billions)	$ 7.7	$ 6.4	$ 5.8	$ 1.3	20 %
End of period brokerage accounts	3,143,923	2,998,059	2,903,191	145,864	5 %
Net new brokerage accounts	145,864	94,868	120,179	50,996	54 %
Brokerage account attrition rate	8.7%	8.8%	9.0%	(0.1)%	*
Customer assets (dollars in billions)	$ 290.3	$ 260.8	$ 201.2	$ 29.5	11 %
Net new brokerage assets (dollars in billions)	$ 10.9	$ 10.4	$ 10.4	$ 0.5	5 %
Brokerage related cash (dollars in billions)	$ 41.1	$ 39.7	$ 33.9	$ 1.4	4 %

* Percentage not meaningful.

The trading and investing segment offers products and services to individual retail investors, generating revenue from these customer relationships and from corporate services activities. This segment currently generates four main sources of revenue: net operating interest income; commissions; fees and service charges; and other revenues. Net operating interest income is generated primarily from margin receivables and from a deposit transfer pricing arrangement with the balance sheet management segment. The balance sheet management segment utilizes deposits and customer payables and compensates the trading and investing segment via a market-based transfer pricing arrangement. This compensation is reflected in segment results as operating interest income for the trading and investing segment and operating interest expense for the balance sheet management segment, and is eliminated in consolidation. Other revenues include results from providing software and services for managing equity compensation plans from corporate customers, as we ultimately service retail investors through these corporate relationships.

2014 Compared to 2013

Trading and investing income increased 64% to $549 million for the year ended December 31, 2014 compared to 2013. We continued to generate net new brokerage accounts, ending the fourth quarter of 2014 with 3.1 million accounts. Brokerage related cash, which is one of our most profitable sources of funding, increased by $1.4 billion to $41.1 billion when compared to 2013.

Trading and investing net operating interest income increased 17% to $632 million for the year ended December 31, 2014 driven primarily by the growth in margin receivables coupled with higher yields on securities lending activities when compared to 2013.

Trading and investing commissions revenue increased 9% to $456 million for the year ended December 31, 2014 compared to 2013. The increase was primarily due to an increase in DARTs of 12% to 168,474 for the year ended December 31, 2014, partially offset by a decrease in average commission per trade of 3% to $10.81, compared to 2013.

Trading and investing fees and service charges increased 21% to $185 million for the year ended December 31, 2014 compared to 2013. The increase in fees and services charges was driven primarily by increased order flow revenue as a result of increased trading volumes and as E*TRADE Securities LLC began routing all of its order flow to third parties following the sale of G1 Execution Services, LLC which was completed on February 10, 2014. In addition, advisor management fees increased driven by assets in managed accounts within our retirement, investing and savings products, which were $3.1 billion at December 31, 2014, compared to $2.4 billion at December 31, 2013.

Trading and investing principal transactions decreased 86% to $10 million for the year ended December 31, 2014 compared to 2013. Principal transactions were derived from our market making business in which we acted as a market-maker for our brokerage customers' orders as well as orders from third party customers. On February 10, 2014, we completed the sale of the market making business to an affiliate of Susquehanna and no longer generate principal transactions revenue.

Trading and investing operating expense decreased 13% to $766 million for the year ended December 31, 2014 compared to 2013. The decrease for the year ended December 31, 2014 was driven by higher operating expenses in the prior period as a result of $142 million in impairment of goodwill associated with the market making business, which was recognized in the second quarter of 2013.

As of December 31, 2014, we had approximately 3.1 million brokerage accounts, 1.3 million stock plan accounts and 0.4 million banking accounts. For the years ended December 31, 2014 and 2013, our brokerage products contributed 80% and 78%, respectively, and our banking products contributed 20% and 22%, respectively, of total trading and investing net revenue.

2013 Compared to 2012

Trading and investing income decreased 32% to $334 million for the year ended December 31, 2013 compared to 2012. The decrease for the year ended December 31, 2013 was driven primarily by $142 million of goodwill impairment recorded in the second quarter of 2013 related to the decision to exit market making business. We continued to generate net new brokerage accounts, ending the year with 3.0 million accounts. Brokerage related cash, which is one of our most profitable sources of funding, increased by $5.8 billion to $39.7 billion when compared to 2012.

Trading and investing net operating interest income decreased 16% to $540 million for the year ended December 31, 2013, compared to 2012. The decrease was driven by lower interest income from the balance sheet management segment as a result of deleveraging initiatives, in particular as it relates to moving sweep deposits off balance sheet.

Trading and investing commissions increased 11% to $420 million for the year ended December 31, 2013 compared to 2012. This increase in commissions was primarily the result of an increase in DARTs of 9% to 150,743 for the year ended December 31, 2013 compared to 2012.

Trading and investing fees and service charges increased 28% to $153 million for the year ended December 31, 2013 compared to 2012. This increase was driven primarily by increases in order flow revenue due to increased trading activity, as well as increases in advisor management fees driven from the managed accounts within our retirement, investing and savings products, which were $2.4 billion at December 31, 2013, compared to $1.3 billion at December 31, 2012.

Trading and investing principal transactions decreased 22% to $73 million for the year ended December 31, 2013 compared to 2012. The decrease in principal transactions revenue was driven primarily by a decrease in market making trading volume along with a decrease in average revenue per share earned.

Trading and investing operating expense increased 15% to $883 million for the year ended December 31, 2013 compared to 2012. The increase for the year ended December 31, 2013 was driven primarily by impairment of goodwill of $142 million in the second quarter of 2013 related to the decision to exit the market making business.

As of December 31, 2013, we had approximately 3.0 million brokerage accounts, 1.2 million stock plan accounts and 0.4 million banking accounts. For the years ended December 31, 2013 and 2012, our brokerage products contributed 78% and 71%, respectively, and our banking products contributed 22% and 29%, respectively, of total trading and investing net revenue.

Balance Sheet Management

The following table summarizes balance sheet management financial information and key financial metrics as of and for the year ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31,			Variance 2014 vs. 2013	
	2014	2013	2012	Amount	%
Net operating interest income	$ 455	$ 442	$ 444	$ 13	3 %
Fees and service charges	1	2	3	(1)	(50)%
Gains on loans and securities, net	36	61	201	(25)	(41)%
Net impairment	—	(3)	(17)	3	*
Other revenues	6	4	6	2	50 %
Total net revenue	498	506	637	(8)	(2)%
Provision for loan losses	36	143	355	(107)	(75)%
Total operating expense	148	179	220	(31)	(17)%
Balance sheet management income	$ 314	$ 184	$ 62	$ 130	71 %
Key Financial Metrics:					
Special mention loan delinquencies	$ 155	$ 272	$ 342	$ (117)	(43)%
Allowance for loan losses	$ 404	$ 453	$ 481	$ (49)	(11)%

* Percentage not meaningful.

The balance sheet management segment primarily generates revenue through net operating interest income. Net operating interest income is generated from interest earned on available-for-sale and held-to-maturity securities and loans receivable, net of interest paid on wholesale borrowings and on a deposit transfer pricing arrangement with the trading and investing segment. The balance sheet management segment utilizes deposits and customer payables to invest in available-for-sale and held-to-maturity securities, and compensates the trading and investing segment via a market-based transfer pricing arrangement. This compensation is reflected in segment results as operating interest income for the trading and investing segment and operating interest expense for the balance sheet management segment and is eliminated in consolidation.

2014 Compared to 2013

The balance sheet management segment income increased 71% to $314 million for the year ended December 31, 2014 compared to 2013. The increase in balance sheet management income was primarily due to a decrease in provision for loan losses of 75% to $36 million for the year ended December 31, 2014 compared to 2013.

The balance sheet management net operating interest income increased 3% to $455 million for the year ended December 31, 2014 compared to 2013. The increase for the year ended December 31, 2014 was driven by the growth in average balances and increased yields of our securities portfolio, which was partially offset by the decrease in the interest earned on the loan portfolio.

Gains on loans and securities, net decreased 41% to $36 million for the year ended December 31, 2014 compared to 2013. Gains on loans and securities, net for the year ended December 31, 2014 included a $7 million gain on the sale of one- to four-family loans modified as TDRs during the second quarter of 2014, and a $6 million gain recognized on the sale of our remaining $17 million in amortized cost of available-for-sale non-agency CMOs in the first quarter of 2014.

Provision for loan losses decreased 75% to $36 million for the year ended December 31, 2014 compared to 2013. The decrease in provision for loan losses was driven primarily by improving economic conditions, as evidenced by the lower levels of delinquent loans in the one- to four-family and home equity loan portfolios, lower net charge-offs, home price improvement and loan portfolio run-off for the year ended December 31, 2014. The reduction in the provision for loan losses was partly offset by enhancements in our quantitative allowance methodology to include the total probable loss on a subset of identified higher risk home equity lines of credit. These enhancements drove the majority of the provision for loan losses within the home equity portfolio during the year ended December 31, 2014. The timing and magnitude of the provision for loan losses is affected by many factors and we anticipate variability particularly as home equity lines of credit begin converting to amortizing loans.

Total balance sheet management operating expense decreased 17% to $148 million for the year ended December 31, 2014 compared to 2013. The decrease in operating expense for the year ended December 31, 2014 resulted primarily from lower FDIC insurance premiums and reduced servicing expenses due to lower loan balances, partially offset by increased expense related to real estate owned when compared to the same period in 2013.

2013 Compared to 2012

The balance sheet management segment income increased 200% to $184 million for the year ended December 31, 2013 compared to 2012. The increase in balance sheet management income was due primarily to a decrease in provision for loan losses of 60% to $143 million, partially offset by lower gains on loans and securities, net for the year ended December 31, 2013.

Gains on loans and securities, net decreased 70% to $61 million for the year ended December 31, 2013 compared to 2012. The decreases in gains on loans and securities, net for the year ended December 31, 2013, were driven by additional gains recognized in the year ended December 31, 2012 from the sale of available-for-sale securities as a result of our deleveraging initiatives, primarily related to a reduction in wholesale funding obligations.

We recognized $3 million and $17 million of net impairment during the years ended December 31, 2013 and 2012, respectively, on certain securities in the non-agency CMO portfolio due to continued deterioration in the expected credit performance of the underlying loans in those specific securities.

Provision for loan losses decreased 60% to $143 million for the year ended December 31, 2013 compared to 2012. The decrease in provision for loan losses was driven primarily by improving economic conditions, as evidenced by the lower levels of delinquent loans in the one- to four-family and home equity loan portfolios, home price improvement and loan portfolio run-off. The decrease was partially offset by additional provision recorded related to $235 million of balloon loans within the home equity line of credit portfolio at December 31, 2013. We increased our default assumptions and extended the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on the higher risk balloon loans as a result of our evaluation.

Total balance sheet management operating expense decreased 19% to $179 million for the year ended December 31, 2013 compared to 2012. The decrease in operating expense for the year ended December 31, 2013 resulted primarily from lower FDIC insurance premiums, reduced servicing expenses due to lower loan balances and reduced expenses related to REO when compared the 2012.

Corporate/Other

The following table summarizes corporate/other financial information for the year ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31,			Variance 2014 vs. 2013	
	2014	2013	2012	Amount	%
Total net revenue	$ 1	$ —	$ —	$ 1	*
Compensation and benefits	118	93	82	25	27 %
Professional services	51	43	37	8	19 %
Occupancy and equipment	15	8	5	7	88 %
Communications	2	2	2	—	0 %
Depreciation and amortization	17	16	16	1	6 %
Facility restructuring and other exit activities	8	28	8	(20)	(71)%
Other operating expenses	20	23	23	(3)	(13)%
Total operating expense	231	213	173	18	8 %
Operating loss	(230)	(213)	(173)	(17)	8 %
Total other income (expense)	(181)	(110)	(514)	(71)	65 %
Corporate/other loss	$ (411)	$ (323)	$ (687)	$ (88)	27 %

* Percentage not meaningful.

The corporate/other category includes costs that are centrally-managed, technology related costs incurred to support centrally-managed functions, restructuring and other exit activities, corporate debt and corporate investments.

2014 Compared to 2013

The corporate/other loss before income taxes was $411 million for the year ended December 31, 2014 compared to $323 million in 2013.

The operating loss increased 8% to $230 million for the year ended December 31, 2014 compared to 2013. The increase during the year ended December 31, 2014 was primarily due to increased compensation and benefits, professional services, and occupancy and equipment partially offset by lower facility restructuring and other exit activities. The increase in compensation and benefits for the year ended December 31, 2014 resulted primarily from increased salaries expense driven by higher headcount. Facility restructuring and other exit activities were $8 million for the year ended December 31, 2014 compared to $28 million for 2013. The costs in 2014 were driven by severance costs incurred primarily related to our exit of the market making business, and were partially offset by the $4 million gain on the sale of that business, which was completed on February 10, 2014. The costs in 2013 were driven primarily by severance costs incurred as part of the expense reduction initiatives in the prior periods.

Total other income (expense) primarily consisted of corporate interest expense of $113 million for year ended December 31, 2014, compared to $114 million in 2013. In addition, during the year ended December 31, 2014 we recognized $12 million of losses on early extinguishment of debt as a result of the early extinguishment of $100 million in repurchase agreements, and $59 million of losses on early extinguishment of debt as a result of the redemption of all of the outstanding 6 3/4% Notes and 6% Notes, a total of $940 million in aggregate principal amount.

2013 Compared to 2012

The corporate/other loss before income taxes was $323 million for the year ended December 31, 2013, compared to $687 million in 2012.

The operating loss increased 23% to $213 million for the year ended December 31, 2013 compared to 2012 due primarily to increased facility restructuring and other exit activities expense as a result of costs incurred as part of our expense reduction initiatives, in addition to costs incurred related to our decision to exit the market making business and increased incentive compensation.

Total other income (expense) included corporate interest expense on interest-bearing corporate debt for the years ended December 31, 2013 and 2012. Corporate interest expense decreased 36% to $114 million for the year ended December 31, 2013 compared to 2012 as a result of the refinance of $1.3 billion in higher coupon corporate debt during the fourth quarter of 2012. Corporate interest expense for the year ended December 31, 2013 was partially offset by a gain of $4 million related to an investment in a venture fund which was included in equity in income of investments and other.

In addition, for the year ended December 31, 2012, $257 million in losses on early extinguishment of corporate debt were recorded, as a result of the early extinguishment of all the 12 1/2% Springing Lien Notes and 7 7/8% Notes during 2012. We also had $78 million in losses on early extinguishment of wholesale borrowings as a result of the early extinguishment of approximately $1.1 billion in wholesale borrowings during 2012.

BALANCE SHEET OVERVIEW

The following table sets forth the significant components of the consolidated balance sheet (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Assets:				
Cash and equivalents	$ 1,783	$ 1,838	$ (55)	(3)%
Segregated cash	555	1,066	(511)	(48)%
Securities[(1)]	24,636	23,773	863	4 %
Margin receivables	7,675	6,353	1,322	21 %
Loans receivable, net	5,979	8,123	(2,144)	(26)%
Investment in FHLB stock	88	61	27	44 %
Other[(2)]	4,814	5,066	(252)	(5)%
Total assets	$ 45,530	$ 46,280	$ (750)	(2)%
Liabilities and shareholders' equity:				
Deposits	$ 24,890	$ 25,971	$ (1,081)	(4)%
Wholesale borrowings[(3)]	4,971	5,822	(851)	(15)%
Customer payables	6,455	6,310	145	2 %
Corporate debt	1,366	1,768	(402)	(23)%
Other liabilities	2,473	1,553	920	59 %
Total liabilities	40,155	41,424	(1,269)	(3)%
Shareholders' equity	5,375	4,856	519	11 %
Total liabilities and shareholders' equity	$ 45,530	$ 46,280	$ (750)	(2)%

(1) Includes balance sheet line items available-for-sale and held-to-maturity securities.
(2) Includes balance sheet line items property and equipment, net, goodwill, other intangibles, net and other assets.
(3) Includes balance sheet line items securities sold under agreements to repurchase and FHLB advances and other borrowings.

Segregated Cash

Segregated cash decreased by 48% to $555 million during the year ended December 31, 2014. The level of cash required to be segregated under federal or other regulations, or segregated cash, is driven largely by customer cash and securities lending balances we hold as a liability in excess of the amount of margin receivables and securities borrowed balances we hold as an asset. The excess represents customer cash that we are required by our regulators to segregate for the exclusive benefit of our brokerage customers.

Securities

Available-for-sale and held-to-maturity securities are summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Available-for-sale securities:				
Debt securities:				
Residential mortgage-backed securities:				
Agency mortgage-backed securities and CMOs	$ 11,164	$ 12,236	$ (1,072)	(9)%
Non-agency CMOs	—	14	(14)	(100)%
Total residential mortgage-backed securities	11,164	12,250	(1,086)	(9)%
Other debt securities	1,191	1,342	(151)	(11)%
Total debt securities	12,355	13,592	(1,237)	(9)%
Publicly traded equity securities(1)	33	—	33	*
Total available-for-sale securities	$ 12,388	$ 13,592	$ (1,204)	(9)%
Held-to-maturity securities:				
Agency residential mortgage-backed securities and CMOs	$ 9,793	$ 8,359	$ 1,434	17 %
Other debt securities	2,455	1,822	633	35 %
Total held-to-maturity securities	$ 12,248	$ 10,181	$ 2,067	20 %
Total securities	$ 24,636	$ 23,773	$ 863	4 %

* Percentage not meaningful.

(1) Publicly traded equity securities consisted of investments in a mutual fund related to the Community Reinvestment Act.

Securities represented 54% and 51% of total assets at December 31, 2014 and 2013, respectively. We classify debt securities as available-for-sale or held-to-maturity based on our investment strategy and management's assessment of our intent and ability to hold the debt securities until maturity. The decrease in available-for-sale securities during the year ended December 31, 2014 was primarily due to net sales and principal paydowns on agency mortgage-backed securities and CMOs and agency debt securities included in other debt securities. Additionally, we sold our remaining $17 million in amortized cost of available-for-sale non-agency CMOs during the first quarter of 2014 as part of our continued focus to reduce legacy risks. The increase in held-to-maturity securities was a result of the purchase of agency mortgage-backed securities and CMOs and agency debt securities included in other debt securities.

Loans Receivable, Net

Loans receivable, net are summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
One- to four-family	$ 3,060	$ 4,475	$ (1,415)	(32)%
Home equity	2,834	3,454	(620)	(18)%
Consumer and other	455	602	(147)	(24)%
Unamortized premiums, net	34	45	(11)	(24)%
Allowance for loan losses	(404)	(453)	49	(11)%
Total loans receivable, net	$ 5,979	$ 8,123	$ (2,144)	(26)%

Loans receivable, net decreased 26% to $6.0 billion at December 31, 2014 from $8.1 billion at December 31, 2013. We are continuing our strategy of reducing balance sheet risk by allowing the loan portfolio to pay down, which we plan to do for the foreseeable future. Additionally, we sold $0.8 billion of our one- to four-family loans modified as TDRs during the second quarter of 2014. As a result of this transaction, we recorded a charge-off of $42 million related to these one- to four-family loans which drove the majority of the decrease in the allowance for loan losses during the year ended December 31, 2014.

Other Assets

Other assets are summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Property and equipment, net	$ 245	$ 237	$ 8	3 %
Goodwill	1,792	1,792	—	— %
Other intangibles	194	216	(22)	(10)%
Other assets	2,583	2,821	(238)	(8)%
Total other assets	$ 4,814	$ 5,066	$ (252)	(5)%

Total other assets decreased 5% to $4.8 billion due primarily to the disposition of held-for-sale assets related to our market making business during the year ended December 31, 2014. At December 31, 2013, held-for-sale assets were reported in the other assets line item on the consolidated balance sheet, which consisted primarily of $105 million of trading securities and $21 million of other intangibles, net. We completed the sale of the market making business on February 10, 2014. See Note 2—Disposition in Item 8. Financial Statements and Supplementary Data for additional information on the market making business.

Deposits

Deposits are summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Sweep deposits	$ 19,119	$ 19,592	$ (473)	(2)%
Complete savings deposits	3,753	4,303	(550)	(13)%
Checking deposits	1,137	1,098	39	4 %
Other money market and savings deposits	833	914	(81)	(9)%
Time deposits	48	64	(16)	(25)%
Total deposits	$ 24,890	$ 25,971	$ (1,081)	(4)%

Deposits represented 62% and 63% of total liabilities at December 31, 2014 and 2013, respectively. At December 31, 2014, 89% of our customer deposits were covered by FDIC insurance. Deposits provide the benefit of lower interest costs compared with wholesale funding alternatives.

The majority of the deposits balance, specifically sweep deposits, is included in brokerage related cash and reported as a customer activity metric of $41.1 billion and $39.7 billion at December 31, 2014 and 2013, respectively. The total brokerage related cash balance is summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Deposits	$ 24,890	$ 25,971	$ (1,081)	(4)%
Less: bank related cash(1)	(5,771)	(6,379)	608	(10)%
Customer payables	6,455	6,310	145	2 %
Customer assets held by third parties(2)	15,520	13,783	1,737	13 %
Total brokerage related cash(3)	$ 41,094	$ 39,685	$ 1,409	4 %

(1) Bank related cash includes complete savings deposits, checking deposits, other money market and savings deposits and time deposits.
(2) Customer assets held by third parties are not reflected on our consolidated balance sheet and are not immediately available for liquidity purposes.
(3) Increases in brokerage related cash generally indicate that the use of our products and services by existing and new brokerage customers is expanding.

As part of our strategy to strengthen our overall financial and franchise position, we focused on improving our capital ratios by reducing risk and deleveraging the balance sheet. Our deleveraging strategy included transferring customer deposits to third party institutions. At December 31, 2014, our customers held $15.5 billion of assets at third party institutions, including third party banks and money market funds. Approximately 72% of these off-balance sheet assets resulted from our deleveraging efforts. We consider our deleveraging initiatives to be complete and maintain the ability to bring the majority of these customer assets back on the balance sheet with appropriate notification to the third party institutions and customer consent, as appropriate.

Customer assets held by third parties included $4.7 billion and $4.4 billion of customer sweep deposits at both December 31, 2014 and 2013, respectively, in the extended insurance sweep deposit account program ("ESDA") that we have in place for brokerage customers. At December 31, 2014, the ESDA program utilized E*TRADE Bank in combination with five additional third party program banks to allow certain customers the ability to insure at least $1,250,000 of the cash they hold in the ESDA. In addition, customer assets held by third parties at December 31, 2014 and 2013 included $10.8 billion and $9.4 billion, respectively, held in third party money market funds in which our customers can elect to participate.

Wholesale Borrowings

Wholesale borrowings, which consist of securities sold under agreements to repurchase and FHLB advances and other borrowings, are summarized as follows (dollars in millions):

	December 31,		Variance 2014 vs. 2013	
	2014	2013	Amount	%
Securities sold under agreements to repurchase	$ 3,672	$ 4,543	$ (871)	(19)%
FHLB advances	871	851	20	2 %
Total securities sold under agreements to repurchase and FHLB advances	4,543	5,394	(851)	(16)%
Subordinated debentures	428	428	—	0 %
Total wholesale borrowings	$ 4,971	$ 5,822	$ (851)	(15)%

Wholesale borrowings represented 12% and 14% of total liabilities at December 31, 2014 and 2013, respectively. Securities sold under agreements to repurchase and FHLB advances are the primary wholesale funding sources of the Bank. During the year ended December 31, 2014, total wholesale borrowings decreased by $851 million primarily due to the scheduled expiration of $600 million of securities sold under agreements to repurchase during the second quarter of 2014. We also terminated $100 million of securities sold under agreements to repurchase during the first quarter of 2014, which resulted in a $12 million loss on early extinguishment of debt. During 2015, we expect securities sold under agreements to repurchase to decrease by approximately $365 million due to planned decreases in the forecasted issuances of debt.

Corporate Debt

Corporate debt by type is shown as follows (dollars in millions):

	Face Value	Discount	Net
December 31, 2014			
Interest-bearing notes:			
6 3/8% Notes, due 2019	$ 800	$ (5)	$ 795
5 3/8% Notes, due 2022	540	(7)	533
Total interest-bearing notes	1,340	(12)	1,328
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	38	—	38
Total corporate debt	$ 1,378	$ (12)	$ 1,366

	Face Value	Discount	Net
December 31, 2013			
Interest-bearing notes:			
6 3/4% Notes, due 2016	$ 435	$ (4)	$ 431
6% Notes, due 2017	505	(4)	501
6 3/8% Notes, due 2019	800	(6)	794
Total interest-bearing notes	1,740	(14)	1,726
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	42	—	42
Total corporate debt	$ 1,782	$ (14)	$ 1,768

In November 2014, we issued an aggregate principal amount of $540 million in 5 3/8% Notes, due 2022. The proceeds from the issuance of the new notes and approximately $460 million of existing corporate cash was used to redeem all of the outstanding 6 3/4% Notes and 6% Notes, a total of $940 million in aggregate principal amount. This resulted in $59 million in losses on early extinguishment of debt for the year ended December 31, 2014; however, the transaction reduced our total corporate debt and extended the maturity profile, with no corporate debt maturing until 2019. Further reducing corporate debt to $1 billion remains a priority for us.

Also in November 2014, we entered into a $200 million senior secured revolving credit facility that expires in November 2017. We have the ability to borrow against the credit facility for working capital and general corporate purposes. At December 31, 2014, there was no outstanding balance under this credit facility.

Other Liabilities

Other liabilities increased $0.9 billion to $2.5 billion due primarily to an increase of $0.6 billion in deposits received for securities loaned during the year ended December 31, 2014.

Shareholders' Equity

The activity in shareholders' equity during the year ended December 31, 2014 is summarized as follows (dollars in millions):

	Common Stock / Additional Paid-In Capital	Accumulated Deficit / Other Comprehensive Loss	Total
Beginning balance, December 31, 2013	$ 7,331	$ (2,475)	$ 4,856
Net income	—	293	293
Net change from available-for-sale securities	—	167	167
Net change from cash flow hedging instruments	—	37	37
Other[(1)]	22	—	22
Ending balance, December 31, 2014	$ 7,353	$ (1,978)	$ 5,375

(1) Other includes employee share-based compensation and conversions of convertible debentures.

LIQUIDITY AND CAPITAL RESOURCES

We have established liquidity and capital policies to support the successful execution of our business strategies, while ensuring ongoing and sufficient liquidity through the business cycle. We believe liquidity is of critical importance to the Company and especially important within E*TRADE Bank and our broker-dealer subsidiaries. The objective of our policies is to ensure that we can meet our corporate, banking and broker-dealer liquidity needs under both normal operating conditions and under periods of stress in the financial markets.

Our corporate liquidity needs are primarily driven by the amount of principal and interest due on our corporate debt as well as any capital needs at E*TRADE Bank. Our banking and brokerage liquidity needs are driven primarily by the level and volatility of our customer activity. Management maintains a set of liquidity sources and monitors certain business trends and market metrics closely in an effort to ensure we have sufficient liquidity and to avoid dependence on other more expensive sources of funding.

Management believes the following sources of liquidity are of critical importance in maintaining ample funding for liquidity needs: corporate cash, bank cash, deposits, securities lending, customer payables and unused FHLB borrowing capacity. In addition, during the fourth quarter of 2014 we obtained a $200 million senior secured revolving credit facility for the parent company. This senior secured revolving credit facility enhances the ability to meet liquidity needs at the parent company and there was no outstanding balance under this credit facility at December 31, 2014. E*TRADE Clearing LLC also maintains uncommitted lines of credit with unaffiliated banks to finance margin lending, with available balances subject to approval when utilized.

Management believes that within deposits, sweep deposits are of particular importance as they are the most stable source of liquidity for E*TRADE Bank when compared to non-sweep deposits. While in recent periods we have transferred customer sweep deposits to third party banks that participate in our ESDA program, we maintain the ability to bring the majority of these off-balance sheet deposits back to E*TRADE Bank with appropriate notification to the third party program banks and customer consent, as appropriate. In addition, certain customer payables and sweep deposits were transferred to third party money market funds. At December 31, 2014, we had $4.7 billion and $10.8 billion of customer deposits at third party banks and third party money market funds, respectively. We continually assess our liquidity position with respect to our ESDA program with the third party banks, and maintain additional sources of liquidity outside of deposits through other programs that are available to us. Refer to Other Sources of Liquidity within this section for additional information on those programs.

Capital is generated primarily through the business operations of the trading and investing and balance sheet management segments, which at December 31, 2014 were primarily contained within E*TRADE Bank; therefore, a key indicator of the capital generated or used in our business operations was the level of regulatory capital in E*TRADE Bank. At December 31, 2014, E*TRADE Bank's Tier 1 leverage ratio was 10.6%, an increase from 9.5% at December 31, 2013. We have been focused on improving the Tier 1 leverage ratio at E*TRADE Bank through continued earnings and deleveraging the balance sheet by a reduction in wholesale borrowings, deposits and customer payables. While we may take some tactical actions in future periods, we consider our deleveraging initiatives to be complete within E*TRADE Bank. We are now focused on continuing to generate capital through earnings.

We submitted an initial capital plan to the OCC and Federal Reserve in 2012 and subsequently updated the plan in 2013 and 2014. The plan includes our five-year business strategy; forecasts of our business results and capital ratios; capital distribution plans in current and adverse operating conditions; and internally developed stress tests. We believe we have made important progress since we laid out our capital plan, as evidenced by the $475 million in dividends that our regulators approved from E*TRADE Bank, including $300 million during the year ended December 31, 2014 and $175 million during 2013.

We are focused on reducing risk, utilizing excess capital created through earnings and by achieving lower capital requirements at E*TRADE Bank, while continuing to enhance our enterprise risk management culture and capabilities. In line with our capital plan, we recently received regulatory approval to operate E*TRADE Bank at a 9.0% Tier 1 leverage ratio. We also received regulatory approval to move our broker-dealers, E*TRADE Securities LLC and E*TRADE Clearing LLC out from under E*TRADE Bank. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend of $434 million to the parent company. The revised organizational structure provides increased capital flexibility as it enables us to dividend excess regulatory capital at our broker-dealers to the parent company. In addition, starting in the second quarter of 2015, we plan to request regulatory approval to issue a dividend each quarter in the amount of E*TRADE Bank's net income from the previous quarter.

Consolidated Cash and Equivalents

The consolidated cash and equivalents balance decreased by $55 million to $1.8 billion at December 31, 2014 when compared to December 31, 2013. The majority of this balance was cash held in regulated subsidiaries, primarily the Bank, outlined as follows (dollars in millions):

	December 31,		
	2014	2013	2012
Corporate cash	$ 233	$ 415	$ 408
Bank cash[(1)]	1,523	1,402	2,320
International brokerage and other cash	27	21	34
Total consolidated cash and equivalents	$ 1,783	$ 1,838	$ 2,762

(1) Bank cash included $764 million, $507 million and $315 million of cash at December 31, 2014, 2013 and 2012, respectively, held by E*TRADE Clearing LLC and E*TRADE Securities LLC, which were broker-dealer subsidiaries of E*TRADE Bank as of December 31, 2014.

Corporate cash is the primary source of liquidity at the parent company. We define corporate cash as cash held at the parent company as well as cash held in certain subsidiaries that can distribute cash to the parent company without any regulatory approval. We believe corporate cash is a useful measure of the parent company's liquidity as it is the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. Corporate cash can fluctuate in any given quarter and is impacted primarily by tax settlements, approval and timing of subsidiary dividends, debt service costs and other overhead cost sharing arrangements.

Corporate cash ended 2014 at $233 million, down from $415 million at December 31, 2013. During the fourth quarter of 2014, approximately $460 million of corporate cash along with the proceeds from the issuance of $540 million of corporate debt was used to redeem $940 million in aggregate principal amount of our higher cost corporate debt. This transaction resulted in a decrease in our annual debt service costs of approximately $30 million and extended the maturity profile of our corporate debt, with no debt maturing until 2019. Corporate cash for the year also included $76 million in cash proceeds from the sale of the market making business in the first quarter of 2014 and the $300 million in dividends from E*TRADE Bank to the parent company during the year ended December 31, 2014.

We target corporate cash to cover at least two times our scheduled annual corporate debt service payments and scheduled maturities over the next 12 months. As such, our target is approximately $160 million, or two times our annual debt service. Currently we do not have any corporate debt with scheduled maturities in the next 12 months. With the moving of the broker-dealers out from under E*TRADE Bank, and assuming we receive regulatory approval for ongoing dividends from E*TRADE Bank, we believe that we will be able to maintain our target corporate cash balance. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend of $434 million to the parent company, which increased corporate cash. As previously discussed, we utilized corporate cash during the fourth quarter of 2014 to pay down corporate debt to $1.4 billion. Reducing corporate debt to $1 billion remains a priority for us, and we believe we are in a position to reduce our debt in the near term by approximately $340 million, subject to market conditions.

We have the ability to borrow against the senior secured revolving credit facility for working capital and general corporate purposes. The credit facility contains certain maintenance covenants, including the requirement for the parent company to maintain unrestricted cash of $100 million. At December 31, 2014, there was no outstanding balance under this credit facility. Additionally, the parent company had $336 million in net deferred tax assets, which will ultimately become sources of corporate cash as the parent company's subsidiaries reimburse the parent company for the use of its deferred tax assets.

Liquidity Available from Subsidiaries

Liquidity available to us from our subsidiaries is limited by regulatory requirements. In addition, neither E*TRADE Bank nor its subsidiaries (including E*TRADE Clearing LLC) may pay dividends to the parent company without approval from regulators. Loans by E*TRADE Bank to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements.

E*TRADE Bank is subject to capital requirements determined by its primary regulators. At December 31, 2014 and 2013, E*TRADE Bank had $2.4 billion and $1.9 billion, respectively, of capital in excess of the amount needed to meet the regulatory minimum Tier 1 leverage ratio required to be considered "well capitalized."

Our broker-dealer subsidiaries are subject to capital requirements determined by their respective regulators. At December 31, 2014 and 2013, all of our brokerage subsidiaries met their minimum net capital requirements. Our broker-dealer subsidiaries had excess net capital of $1.1 billion at December 31, 2014, an increase of $229 million from $873 million at December 31, 2013. The excess net capital of the broker-dealer subsidiaries at December 31, 2014 included $625 million and $459 million of excess net capital at E*TRADE Clearing LLC and E*TRADE Securities LLC, respectively, which were subsidiaries of E*TRADE Bank and these amounts were also included in the excess capital of E*TRADE Bank. E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend to the parent company which reduced E*TRADE Securities LLC's excess capital by $434 million.

Financial Regulatory Reform Legislation and Basel III Framework

The Dodd-Frank Act requires all companies, including savings and loan holding companies, that directly or indirectly control an insured depository institution to serve as a source of strength for the institution. The implementation of capital requirements applicable to the parent company for Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios will impact us as the parent company was not previously subject to regulatory capital requirements. These requirements became effective for us on January 1, 2015, subject to a phase-in period for certain requirements over several years, as further explained below. We are currently in compliance with the Basel III capital requirements now applicable to us and we have no plans to raise additional capital as a result of these new requirements.

The Tier 1 leverage, Tier 1 risk-based capital, total risk-based capital and Tier 1 common ratios disclosed below were calculated under Basel I and are non-GAAP measures as the parent company was not held to the Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital regulatory capital requirements. Additionally, prior to the imposition of Basel III, we had monitored our Tier 1 common ratio, also a non-GAAP measure, which is defined as Tier 1 capital, less elements of Tier 1 capital that are not in the form of common equity, such as trust preferred securities, divided by total risk-weighted assets. The Tier 1 leverage, Tier 1 risk-based capital, total risk-based capital and Tier 1 common ratios are calculated as follows (dollars in millions):

	December 31,		
	2014	2013	2012
Shareholders' equity	$ 5,375	$ 4,856	$ 4,904
Deduct:			
Losses in other comprehensive income on available-for-sale debt securities and cash flow hedges, net of tax	(255)	(459)	(315)
Goodwill and other intangible assets, net of deferred tax liabilities	1,592	1,654	1,899
Disallowed servicing assets and deferred tax assets	1,008	1,185	1,279
Tier 1 common	3,030	2,476	2,041
Add:			
Qualifying restricted core capital elements (trust preferred securities)(1)	433	433	433
Tier 1 capital	3,463	2,909	2,474
Add:			
Allowable allowance for loan losses	223	228	252
Total capital	$ 3,686	$ 3,137	$ 2,726
Total average assets	$ 45,445	$ 46,038	$ 48,152
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	1,592	1,654	1,899
Disallowed servicing assets and deferred tax assets	1,008	1,185	1,279
Average total assets for leverage capital purposes	$ 42,845	$ 43,199	$ 44,974
Total risk-weighted assets(2)	$ 17,683	$ 17,992	$ 19,850
Tier 1 leverage ratio (Tier 1 capital / Average total assets for leverage capital purposes)	8.1%	6.7%	5.5%
Tier 1 capital / Total risk-weighted assets	19.6%	16.2%	12.5%
Total capital / Total risk-weighted assets	20.8%	17.4%	13.7%
Tier 1 common ratio (Tier 1 common / Total risk-weighted assets)	17.1%	13.8%	10.3%

(1) The Company included 100% of its trust preferred securities in E*TRADE Financial's Tier 1 capital, as the final ruling issued in July 2013 by the regulatory agencies has the phase-out of trust preferred securities beginning January 1, 2015 for the Company.

(2) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

At December 31, 2014, our Tier 1 leverage ratio was 8.1% compared to the minimum ratio required to be "well capitalized" of 5%, the Tier 1 risk-based capital ratio was 19.6% compared to the minimum ratio required to be "well capitalized" of 6%, and the total risk-based capital ratio was 20.8% compared to the minimum ratio required to be "well capitalized" of 10%. Our Tier 1 common ratio was 17.1% at December 31, 2014.

In July 2013, the U.S. Federal banking agencies finalized a rule to implement Basel III in the U.S., which provides the framework for the calculation of a banking organization's regulatory capital and risk-weighted assets. The Basel III rule establishes Common Equity Tier 1 capital as a new tier of capital, raises the minimum thresholds for required capital, increases minimum required risk-based capital ratios, narrows the eligibility criteria for regulatory capital instruments, provides for new regulatory capital deductions and adjustments, and modifies methods for calculating risk-weighted assets (the denominator of risk-based capital ratios) by, among other things, strengthening counterparty credit risk capital requirements. The Basel III final rule also introduces a capital conservation buffer that limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a Common Equity Tier 1 capital conservation buffer of more than 2.5%, on a fully phased-in basis, of total risk-weighted assets above each of the following minimum risk-based capital ratio requirements: Common Equity Tier 1 (4.5%), Tier 1 (6.0%), and total risk-based capital (8.0%). This requirement will begin to take effect on January 1, 2016, and will be fully phased in by 2019.

The rule became effective on January 1, 2014, for certain large banking organizations, and January 1, 2015, for most other U.S. banking organizations, including the Company and E*TRADE Bank. The fully phased-in Basel III capital standards will become effective January 1, 2019 for the Company and E*TRADE Bank. We expect to remain compliant with the Basel III framework as it is phased in.

Several elements of the final rule are likely to have a meaningful impact to us. Margin receivables will qualify for 0% risk-weighting and we believe we will be able to include a larger portion of our deferred tax assets in regulatory capital, both having a favorable impact on our current capital ratios. A portion of this benefit will be offset as we phase out trust preferred securities from the parent company's capital. In addition, the final rule gives the option for a one-time permanent election for the inclusion or exclusion in the calculation of Common Equity Tier 1 capital of unrealized gains (losses) on all available-for-sale debt securities; we currently intend to elect to exclude unrealized gains (losses).

On September 9, 2014, U.S. Federal banking agencies issued an inter-agency final rule that implements a quantitative LCR that is generally consistent with, and in some respects stricter than, the international LCR standard established by the BCBS. The purpose of the LCR is to require certain financial institutions to hold minimum amounts of high-quality, liquid assets against projected net cash outflows over a 30-day period of stressed conditions. While the LCR does not apply to companies with less than $50 billion in assets, including the Company, we believe we would be compliant with the LCR standards set out in the final rule, as they apply to larger institutions.

Stress Testing

On October 9, 2012, the U.S. Federal banking agencies, including the OCC and the Federal Reserve, issued final rules implementing provisions of the Dodd-Frank Act that require banking organizations with total consolidated assets of more than $10 billion but less than $50 billion to conduct annual company-run stress tests, report the results to their primary federal regulator and the Federal Reserve and publish a summary of the results. Under the rules, stress tests must be conducted using certain scenarios (baseline, adverse and severely adverse), which the OCC and Federal Reserve will publish by November 15 of each year.

Under the OCC stress test regulations, E*TRADE Bank is required to conduct stress-testing using the prescribed stress-testing methodologies. The final OCC regulations required E*TRADE Bank to conduct its first stress test using financial statement data as of September 30, 2013, and submit the results prior to March 31, 2014. E*TRADE Bank submitted the results of its first stress test prior to March 31, 2014, as required. For banking organizations with total consolidated assets of more than $10 billion but less than $50 billion, the results of the first official test will not be public information. As E*TRADE Bank had total consolidated assets of less than $50 billion at the relevant time, the results of its first official stress test will not be made public. E*TRADE Bank will be required to publish summary results of its annual stress test between June 15 and June 30 each year, beginning with its second annual stress test in 2015.

The OCC analyzes and provides feedback on the quality of E*TRADE Bank's stress test process and results. In the second quarter of 2014 we received feedback from the OCC on our first official stress test submission that we remained well above the regulatory well-capitalized levels for all scenarios. We were satisfied with the feedback around our stress testing process, approach and methodologies. E*TRADE Bank will be required to publish summary results of its annual stress test between June 15 and June 30 each year, beginning with its second annual stress test in 2015.

Under the final Federal Reserve regulations, the parent company will be required to conduct its first stress test using financial statement data as of September 30, 2016, and it will be required to report the results of its first stress test to the Federal Reserve on or before March 31, 2017, and to disclose a summary of its first stress test results between June 15 and June 30, 2017.

Other Sources of Liquidity

We rely on borrowed funds, from sources such as securities sold under agreements to repurchase and FHLB advances, to provide liquidity for E*TRADE Bank. Our ability to borrow these funds is dependent upon the continued availability of funding in the wholesale borrowings market. In addition, we can borrow from the Federal Reserve Bank's discount window to meet short-term liquidity requirements, although it is not viewed as a primary source of funding. At December 31, 2014, E*TRADE Bank had approximately $2.8 billion and $1.0 billion in additional collateralized borrowing capacity with the FHLB and the Federal Reserve Bank, respectively. We also have the ability to generate liquidity in the form of additional deposits by raising the yield on our customer deposit products.

While E*TRADE Clearing LLC also maintains uncommitted lines of credit with unaffiliated banks to finance margin lending, with available balances subject to approval when utilized, there were no outstanding balances at December 31, 2014.

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our customers and to reduce our own exposure to interest rate risk. These arrangements include firm commitments to extend credit and letters of credit. Additionally, we enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For additional information on each of these arrangements, see Note 21—Commitments, Contingencies and Other Regulatory Matters of Item 8. Financial Statements and Supplementary Data.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2014 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (dollars in millions):

	Payments Due by Period					
	Less Than 1 Year	1-3 Years	3-5 Years	Thereafter	Other [7]	Total
Securities sold under agreements to repurchase[1]	$ 3,027	$ 655	$ —	$ —	$ —	$ 3,682
FHLB advances and other borrowings[1][2]	286	679	25	619	—	1,609
Corporate debt[3]	80	160	954	661	—	1,855
Uncertain tax positions	2	12	2	—	314	330
Certificates of deposit and brokered certificates of deposit[1][4]	33	11	4	—	—	48
Leases[5]	26	50	42	46	—	164
Purchase obligations[6]	82	8	—	—	—	90
Total contractual obligations	$ 3,536	$ 1,575	$ 1,027	$ 1,326	$ 314	$ 7,778

(1) Includes annual interest based on the contractual features of each transaction, using market rates at December 31, 2014. Interest rates are assumed to remain at current levels over the life of all adjustable rate instruments.
(2) For subordinated debentures included in other borrowings, does not assume early redemption under current conversion provisions.
(3) Includes annual interest payments. Does not assume conversion for the non-interest bearing convertible debentures due 2019.
(4) Does not include sweep deposits, complete savings deposits, other money market and savings deposits or checking deposits as there are no stated maturity dates and /or scheduled contractual payments.
(5) Includes future minimum lease payments, net of sublease proceeds under sale-leaseback transaction and operating leases with initial or remaining terms in excess of one year.
(6) Includes material purchase obligations for goods and services covered by non-cancelable contracts and contracts with termination clauses. Includes contracts through the termination date, even if the contract is renewable.
(7) Represents uncertain tax positions that we are unable to make a reasonably reliable estimate of the timing of cash payments in individual years or where a net operating loss carryforward could be used to offset the liability.

At December 31, 2014, the Company had $169 million of unused lines of credit available to customers under home equity lines of credit. The Company also had $40 million in commitments to fund small business investment companies, community development financial institutions, affordable housing tax credit partnerships and other limited partnerships at December 31, 2014. Additional information related to commitments and contingent liabilities is detailed in Note 21—Commitments, Contingencies and Other Regulatory Matters of Item 8. Financial Statements and Supplementary Data.

RISK MANAGEMENT

As a financial services company, our business exposes us to certain risks. The identification, mitigation and management of existing and potential risks are keys to effective enterprise risk management. There are certain risks that are inherent to our business (e.g. execution of transactions) whereas other risks will present themselves through the conduct of that business. We seek to monitor and manage our significant risk exposures through a set of board approved limits as well as Key Risk Indicators ("KRIs") or metrics. We have in place a governance framework that regularly reports metrics, major risks and exposures to senior management and the Board of Directors. Throughout 2014, we enhanced our risk management culture and capabilities, and we will strive to make continued enhancements in 2015. As of June 1, 2014, our risk management framework became required to satisfy the risk committee requirement for publicly traded bank holding companies with total consolidated assets of greater than $10 billion and less than $50 billion, contained in the Federal Reserve's enhanced prudential standards for bank holding companies and foreign banking organizations. Our framework, as described below, is in compliance with all applicable requirements.

We have a Board-approved Risk Appetite Statement ("RAS") which we disseminate to employees. The RAS specifies the significant risks we are exposed to and our tolerance of those risks. As described in the RAS, our business exposes us to the following eight major categories of risk:

- *Credit Risk*—the risk of loss arising from the inability or failure of a borrower or counterparty to meet its credit obligations.
- *Interest Rate Risk*—the risk of loss of income or value of future income due to changes in interest rates arising from the Company's balance sheet position. This includes convexity risk, which arises from optionality in the balance sheet, related to prepayments in mortgage assets.
- *Liquidity Risk*—the potential inability to meet contractual and contingent financial obligations either on- or off-balance sheet, as they come due.
- *Market Risk*—the risk that asset values or income streams will be adversely affected by changes in market conditions.
- *Operational Risk*—the risk of loss due to failure of people, processes and systems, or damage to physical assets caused by unexpected events.
- *Strategic Risk*—sometimes called business risk, is the risk of loss of market size, market share or margin in any business.
- *Reputational Risk*—the potential that negative perceptions regarding our conduct or business practices will adversely affect valuation, profitability, operations or customer base or require costly litigation or other measures.
- *Legal, Regulatory and Compliance Risk*—the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards.

We have identified several other risks that could impact our business, financial condition, results of operations or cash flows in future periods. See Part I—Item 1A. Risk Factors.

We manage risk through a governance structure of risk committees, which consist of members of senior management, to help ensure that business decisions are executed within our stated risk profile and consistent with the RAS. A variety of methodologies and measures are used to monitor, quantify, assess and forecast risk. Measurement criteria, methodologies and calculations are reviewed periodically to assure that risks are represented appropriately. Certain risks are described in the RAS and related policies which establish processes and limits. The RAS and these policies are reviewed, challenged and approved by certain risk committees and the Board of Directors on at least an annual basis.

The Risk Oversight Committee, which consists of independent members of the Board of Directors, reviews, challenges and approves the RAS and risk policies each year, receives regular reports on the status of certain limits and KRIs as well as discusses certain key risks. In addition to this Board-level committee, various management risk committees throughout the Company aid in the identification, measurement and management of risks, including:

- *Asset Liability Committee*—the Asset Liability Committee ("ALCO") has primary responsibility for monitoring of market, interest rate and liquidity risk, and recommends related risk limits to be approved by the Enterprise Risk Management Committee ("ERMC").
- *Credit Committee*—the Credit Committee has responsibility for monitoring credit risks and approving risk limits or recommending risk limits to be approved by the ERMC.
- *Enterprise Risk Management Committee*—the ERMC is the senior-most risk management committee and has primary responsibility for approving risk limits and monitoring the Company's risk management activities. The ERMC also resolves issues escalated by the other risk management committees and in certain instances approves exceptions to risk policies.
- *Investment Policy Committee*—the Investment Policy Committee has responsibility for reviewing, challenging and approving investments recommended for investment advisory products and incidental advice services and investment guidance, including reviewing, challenging and approving capital market assumptions and other underlying assumptions relating to financial tools and calculators.
- *Model Risk Management Committee*—the Model Risk Management Committee has responsibility for reviewing and challenging models used across the Company, the assumptions and scenarios that are provided to generate model results, and model performance.
- *New Products Review Committee*—the New Products Review Committee has responsibility for assessing and approving the business, risk, regulatory and compliance perspectives of new products to be offered to customers and prospective customers.

- *Operational Risk and Control Committee*—the Operational Risk and Control Committee ("ORCC") has responsibility for the oversight and management of the operational risks in all business lines, legal entities, and departments, including the development and reporting of key operational risk metrics. The ORCC has oversight of operational risk management in the existing enterprise risk categories, including: transactions execution risk, cybersecurity and other security risks, legal and regulatory risks, systems and information technology risks, and employment risks.
- *Order Routing and Best Execution Committee*—the Order Routing and Best Execution Committee ("ORBEC") has responsibility for evaluating the Company's execution statistics and order-routing determinations for stock and listed options and determining how, if at all, the Company will alter its order-routing methodology to improve execution quality. The ORBEC also reviews order flow rates and payments received from G1 Execution Services, LLC and other unaffiliated market centers for comparable order flow directed to them.
- *Vendor Management Committee*—the Vendor Management Committee has responsibility for the oversight of the effectiveness of the Third Party Oversight process, including reviewing the processes for the identification, measurement, management, mitigation and reporting of operational risks.

Credit Risk Management

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its credit obligations. We are exposed to credit risk in the following areas:

- We hold credit risk exposure in our loan portfolio. We are not currently originating or purchasing loans, and we are continuing our strategy of reducing balance sheet risk by allowing the loan portfolio to pay down.
- We extend margin loans to our brokerage customers which exposes us to the risk of credit losses in the event we cannot liquidate collateral during significant market movements.
- We engage in financial transactions with counterparties which expose us to credit losses in the event a counterparty cannot meet its obligations. These financial transactions include our invested cash, securities lending, repurchase and reverse repurchase agreements and derivatives contracts, as well as the settlement of trades.

Credit risk is monitored by our Credit Committee, whose objective is to evaluate current and expected credit performance of the Company's loans, investments, borrowers and counterparties relative to market conditions and the probable impact on the Company's financial performance. The Credit Committee establishes credit risk guidelines in accordance with the Company's strategic objectives and existing policies. The Credit Committee reviews investment and lending activities involving credit risk to ensure consistency with those established guidelines. These reviews involve an analysis of portfolio balances, delinquencies, losses, recoveries, default management and collateral liquidation performance, as well as any credit risk mitigation efforts relating to the portfolios. In addition, the Credit Committee reviews and approves credit related counterparties engaged in financial transactions with the Company.

Loss Mitigation on the Loan Portfolio

Our credit risk operations team focuses on the mitigation of potential losses in the loan portfolio. Through a variety of strategies, including voluntary line closures, automatically freezing lines on all delinquent accounts, and freezing lines on loans with materially reduced home equity, we reduced our exposure to open home equity lines from a high of over $7 billion in 2007 to $169 million at December 31, 2014.

We have loan modification programs that focus on the mitigation of potential losses in the one- to four- family and home equity mortgage loan portfolio. We currently do not have any active loan modification program for consumer and other loans. During the years ended December 31, 2014 and 2013, we modified $20 million and $80 million, respectively, of one- to four-family loans and $15 million and $18 million, respectively, of home equity loans, in which the modification was considered a TDR. In order to significantly reduce risk on the legacy loan portfolio, we sold $0.8 billion of our one- to four-family loans modified as TDRs during the second quarter of 2014.

We also process minor modifications on a number of loans through traditional collections actions taken in the normal course of servicing delinquent accounts. Minor modifications resulting in an insignificant delay in the timing of payments are not considered economic concessions and therefore are not classified as TDRs. At December 31, 2014 and 2013, we had $25 million and $32 million, respectively, of mortgage loans with a minor modification that was not considered a TDR. Approximately 5% and 7% of these loans were classified as nonperforming at December 31, 2014 and 2013, respectively.

To reduce vendor operational and regulatory risk, we have an initiative to assess our servicing relationships and, where appropriate, consolidate loan servicing or transfer certain mortgage loans to servicers that specialize in managing troubled assets. During the year ended December 31, 2014, we completed servicer transfers of $962 million of mortgage loans as a result of this initiative. At December 31, 2014, $2.8 billion gross unpaid principal balance of our mortgage loans were held at servicers that specialize in managing troubled assets. We believe this initiative has improved and will continue to improve the credit performance in future periods of the loans transferred compared to the expected credit performance of these same loans if they had not been transferred.

We continue to review the mortgage loan portfolio in order to identify loans to be repurchased by the originator. Our review is primarily focused on identifying loans with violations of transaction representations and warranties or material misrepresentation on the part of the seller. Any loans identified with these deficiencies are submitted to the original seller for repurchase. During the years ended December 31, 2014 and 2013, we agreed to settlements with third-party mortgage originators specific to loans sold to us by those originators. One-time payments were agreed upon to satisfy in full all pending and future requests with those specific originators. We applied the full amount of payments of $11 million and $13 million for the years ended December 31, 2014 and 2013, respectively, as recoveries to the allowance for loan losses, resulting in a corresponding reduction to net charge-offs as well as our provision for loan losses. Approximately $24 million of loans were repurchased by or settled with the original sellers during the year ended December 31, 2014, for a total of $457 million of loans that were repurchased, including global settlements, since we actively started reviewing our purchased loan portfolio beginning in 2008. While we may continue to pursue loans to be repurchased by or settled with the original sellers, we consider this effort to be substantially complete.

Interest Rate Risk Management

Interest rate risks are monitored and managed by the ALCO, including the analysis of earnings sensitivity to changes in market interest rates under various scenarios. The scenarios assume both parallel and non-parallel shifts in the yield curve. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk for additional information about our interest rate risks.

Liquidity Risk Management

Liquidity risk is monitored by the ALCO. We have in place a comprehensive set of liquidity and funding policies as well as contingency funding plans that are intended to maintain our flexibility to address liquidity events specific to us or the market in general. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for additional information.

Market Risk Management

Market risks are monitored through the ALCO. These risks include holding positions associated with reduced spreads in securities pricing. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk for additional information about our market risks.

Operational Risk Management

Operational risks exist in most areas of the Company from processing a transaction to customer service. We are also exposed to fraud risk from unauthorized use of customer and corporate funds and resources. We monitor customer transactions and use scoring tools which prevent a significant number of fraudulent transactions on a daily basis. However, new techniques and strategies are constantly being developed by perpetrators to commit fraud. In order to minimize this threat, we offer our customers various security measures, including a token based multi-factor verification system.

The failure of a third party vendor to adequately meet its responsibilities which could result in financial loss and impact our reputation is another significant operational risk. The Third Party Oversight group regularly reports to the ERMC and monitors our vendor relationships. The vendor risk identification process includes reviews of contracts, financial soundness of providers, information security, business continuity and risk management scoring.

Strategic Risk Management

Strategic risks are reviewed, challenged and monitored by various risk committees, the ERMC and Board committees. These risks include potential loss of customers or adverse changes in customer mix in the brokerage business, including trading activity as well as income from related businesses, including securities lending and margin lending; turmoil in the global financial markets which could reduce trade volumes and margin borrowing and increase our dependence on our more active customers who receive lower pricing; and new entrants into the discount brokerage market which could put pressure on margins and thus reduce revenues.

Reputational Risk Management

Reputational risks are reviewed, challenged and monitored by various risk committees and the ERMC. We recognize that reputational risk can manifest itself in all areas of our business often in conjunction with other risk types. We acknowledge that there is particular reputational risk from many factors including, but not limited to:

- deterioration in the loan portfolios;
- impact of investigations and lawsuits;
- failure of controls supporting the accuracy of financial reports and disclosures;
- failure of third party vendors to adequately meet their responsibilities;
- risk of business disruption and system failures;
- risk of security breaches and identity theft; and
- risk of public regulatory findings.

Legal, Regulatory and Compliance Risk Management

Legal, regulatory and compliance risks are reviewed, challenged and monitored by various risk committees and the ERMC. We recognize that legal, regulatory and compliance risks can manifest in all areas of our business. Particularly pertinent risks include extensive government regulation, including banking and securities rules and regulations, which could restrict our business practices; recently enacted regulatory reform legislation which may have a material impact on our operations; and investigations and lawsuits. In addition, if we are unable to meet these new requirements, we could face negative regulatory consequences, which would have a material negative effect on our business; not complying with applicable securities and banking laws, rules and regulations, either domestically or internationally could subject us to disciplinary actions, damages, penalties or restrictions that could significantly harm our business; and not maintaining the capital levels required by regulators could subject us to prompt correction actions, increasingly strong sanctions, cease-and-desist orders, and ultimately FDIC receivership.

These risks also arise in situations where the laws or rules governing certain regulated products or activities may be ambiguous, untested, or in the process of significant change or revision. This risk exposes us to fines, civil money penalties, payment of damages, and the voiding of contracts. It can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

CONCENTRATIONS OF CREDIT RISK

Loans

One- to four-family loans include interest-only loans for a five to ten year period, followed by an amortizing period ranging from 20 to 25 years. At December 31, 2014, 42% of our one- to four-family portfolio were not yet amortizing. However, during the year ended December 31, 2014, based on the unpaid principal balance before charge-offs, approximately 15% of these borrowers made voluntary annual principal payments of at least $2,500 and slightly over a third of those borrowers made voluntary annual principal payments of at least $10,000.

The home equity loan portfolio is primarily second lien loans on residential real estate properties, which have a higher level of credit risk than first lien mortgage loans. Approximately 15% of the home equity loan portfolio was in the first lien position and we held both the first and second lien positions in less than 1% of the home equity loan portfolio at December 31, 2014. The home equity loan portfolio consisted of approximately 19% of home equity installment loans and approximately 81% of home equity lines of credit at December 31, 2014.

Home equity installment loans are primarily fixed rate and fixed term, fully amortizing loans that do not offer the option of an interest-only payment. The majority of home equity lines of credit convert to amortizing loans at the end of the draw period, which typically ranges from five to ten years. Approximately 7% of this portfolio will require the borrowers to repay the loan in full at the end of the draw period, commonly referred to as "balloon loans." At December 31, 2014, 85% of the home equity line of credit portfolio had not converted from the interest-only draw period and had not begun amortizing. However, during the year ended December 31, 2014, approximately 40% of the borrowers of our not yet converted home equity line of credit loans made annual principal payments of at least $500 on their home equity lines of credit and slightly under half of those borrowers reduced their principal balance by at least $2,500.

The following table outlines when one- to four-family and home equity lines of credit convert to amortizing by percentage of the one- to four-family and home equity line of credit portfolios, respectively, at December 31, 2014:

Period of Conversion to Amortizing Loan	% of One- to Four-Family Portfolio	% of Home Equity Line of Credit Portfolio
Already amortizing	58%	15%
Year ending December 31, 2015	5%	27%
Year ending December 31, 2016	16%	44%
Year ending December 31, 2017 or later	21%	14%

We track and review factors to predict and monitor credit risk in the mortgage loan portfolio on an ongoing basis. These factors include: loan type, estimated current LTV/CLTV ratios, delinquency history, documentation type, borrowers' current credit scores, housing prices, loan vintage and geographic location of the property. In economic conditions in which housing prices generally appreciate, we believe that loan type, LTV/CLTV ratios and credit scores are the key factors in determining future loan performance. In a housing market with declining home prices and less credit available for refinance, we believe the LTV/CLTV ratio becomes a more important factor in predicting and monitoring credit risk. Credit scores and LTV/CLTV are updated on at least a quarterly basis. For the consumer and other loan portfolio, we track and review delinquency status to predict and monitor credit risk on at least a quarterly basis.

The following tables show the distribution of the mortgage loan portfolios by credit risk factor (dollars in millions):

	One- to Four-Family		Home Equity	
	December 31,		December 31,	
Current LTV/CLTV(1)	2014	2013	2014	2013
<=80%	$ 1,757	$ 1,912	$ 1,081	$ 1,142
80%-100%	807	1,365	755	866
100%-120%	311	711	557	736
>120%	185	487	441	710
Total mortgage loans receivable	$ 3,060	$ 4,475	$ 2,834	$ 3,454
Average estimated current LTV/CLTV (2)	79%	90%	92%	98%
Average LTV/CLTV at loan origination (3)	71%	72%	80%	80%

(1) Current CLTV calculations for home equity loans are based on the maximum available line for home equity lines of credit and outstanding principal balance for home equity installment loans. For home equity loans in the second lien position, the original balance of the first lien loan at origination date and updated valuations on the property underlying the loan are used to calculate CLTV. Current property values are updated on a quarterly basis using the most recent property value data available to us. For properties in which we did not have an updated valuation, we utilized home price indices to estimate the current property value.

(2) The average estimated current LTV/CLTV ratio reflects the outstanding balance at the balance sheet date and the maximum available line for home equity lines of credit, divided by the estimated current value of the underlying property.

(3) Average LTV/CLTV at loan origination calculations are based on LTV/CLTV at time of purchase for one- to four-family purchased loans and undrawn balances for home equity loans.

	One- to Four-Family		Home Equity	
	December 31,		December 31,	
Current FICO (1)	2014	2013	2014	2013
>=720	$ 1,734	$ 2,252	$ 1,487	$ 1,811
719 - 700	296	436	292	343
699 - 680	260	366	238	293
679 - 660	197	296	203	245
659 - 620	237	404	258	310
<620	336	721	356	452
Total mortgage loans receivable	$ 3,060	$ 4,475	$ 2,834	$ 3,454

(1) FICO scores are updated on a quarterly basis; however, at December 31, 2014 and 2013, there were some loans for which the updated FICO scores were not available. The current FICO distribution at December 31, 2014 included the most recent FICO scores where available, otherwise the original FICO score was used, for approximately $49 million and $4 million of one- to four-family and home equity loans, respectively. The current FICO distribution at December 31, 2013 included original FICO scores for approximately $95 million and $10 million of one- to four-family and home equity loans, respectively.

Approximately 47% and 46% of our mortgage loans receivable were full documentation loans at December 31, 2014 and 2013, respectively, with the remaining being low or no documentation. The average age of our mortgage loans receivable was 8.9 years and 7.9 years at December 31, 2014 and 2013, respectively.

Approximately 38% and 40% of our mortgage loans receivable were concentrated in California at December 31, 2014 and 2013, respectively. No other state had concentrations of mortgage loans that represented 10% or more of our mortgage loans receivable at December 31, 2014 and 2013.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio at the balance sheet date. The estimate of the allowance for loan losses is based on a variety of quantitative and qualitative factors, including the composition and quality of the portfolio; delinquency levels and trends; current and historical charge-off and loss experience; our historical loss mitigation experience; the condition of the real estate market and geographic concentrations within the loan portfolio; the interest rate climate; the overall availability of housing credit; and general economic conditions. The allowance for loan losses is typically equal to management's forecast of loan losses in the twelve months following the balance sheet date as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs. The general allowance for loan losses also includes a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors we believe may impact the level of credit losses.

The following table presents the allowance for loan losses by loan portfolio (dollars in millions):

	One- to Four-Family		Home Equity		Consumer and Other		Total	
	December 31,		December 31,		December 31,		December 31,	
	2014	2013	2014	2013	2014	2013	2014	2013
General reserve:								
Quantitative component	$ 11	$ 34	$ 281	$ 212	$ 9	$ 21	$ 301	$ 267
Qualitative component	7	8	29	50	1	4	37	62
Specific valuation allowance	9	60	57	64	—	—	66	124
Total allowance for loan losses	$ 27	$ 102	$ 367	$ 326	$ 10	$ 25	$ 404	$ 453
Allowance as a % of loans receivable(1)	0.9%	2.3%	12.9%	9.4%	2.1%	4.1%	6.3%	5.3%

(1) Allowance as a percentage of loans receivable is calculated based on the gross loans receivable for each respective category.

The one- to four-family allowance for loan losses decreased 74% to $27 million at December 31, 2014 from $102 million at December 31, 2013. This decline was primarily a result of the sale of $0.8 billion of our one- to four-family loans modified as TDRs during the second quarter of 2014. As a result of this transaction, we recorded a charge-off of $42 million related to these one- to four-family loans which had been previously recorded as part of the specific valuation allowance. This charge-off and improving economic conditions, as evidenced by the lower levels of delinquent loans, home price improvement and loan portfolio run-off, drove the majority of the decrease in the allowance for loan losses during the year ended December 31, 2014.

The home equity allowance for loan losses increased 13% to $367 million at December 31, 2014 from $326 million at December 31, 2013, inclusive of the migration of certain estimated losses previously captured in the qualitative component into the quantitative component. During 2014, we enhanced our quantitative allowance methodology to identify higher risk home equity lines of credit and extend the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on a subset of these higher risk loans. These enhancements drove the migration of estimated losses previously captured on these loans from the qualitative component to the quantitative component of the general allowance, and drove the majority of the provision for loan losses within the home equity portfolio during the year ended December 31, 2014.

Troubled Debt Restructurings

TDRs include two categories of loans: (1) loan modifications completed under our loss mitigation programs in which economic concessions were granted to borrowers experiencing financial difficulty, and (2) loans that have been charged-off based on the estimated current value of the underlying property less estimated selling costs due to bankruptcy notification even if the loan has not been modified under the Company's programs. The following table shows total TDRs by category at December 31, 2014 and 2013 (dollars in millions):

	Loans Modified as TDRs[(1)]	Bankruptcy Loans	Total TDRs
December 31, 2014			
One- to four-family	$ 185	$ 131	$ 316
Home equity	169	48	217
Total	$ 354	$ 179	$ 533
December 31, 2013			
One- to four-family	$ 1,036	$ 136	$ 1,172
Home equity	188	53	241
Total	$ 1,224	$ 189	$ 1,413

(1) Includes loans modified as TDRs that also had received a bankruptcy notification of $42 million and $252 million at December 31, 2014 and 2013, respectively.

Total TDRs decreased $0.9 billion during the year ended December 31, 2014 primarily due to the sale of $0.8 billion of our one- to four- family loans modified as TDRs during the second quarter of 2014. See the Allowance for Loan Losses section above for additional information on this transaction.

The following table shows total TDRs by delinquency category at December 31, 2014 and 2013 (dollars in millions):

	TDRs Current	TDRs 30-89 Days Delinquent	TDRs 90-179 Days Delinquent	TDRs 180+ Days Delinquent	Total Recorded Investment in TDRs
December 31, 2014					
One- to four-family	$ 232	$ 24	$ 12	$ 48	$ 316
Home equity	178	14	6	19	217
Total	$ 410	$ 38	$ 18	$ 67	$ 533
December 31, 2013					
One- to four-family	$ 901	$ 102	$ 44	$ 125	$ 1,172
Home equity	198	17	7	19	241
Total	$ 1,099	$ 119	$ 51	$ 144	$ 1,413

TDRs on accrual status, which are current and have made six or more consecutive payments, were $248 million and $950 million at December 31, 2014 and 2013, respectively.

Troubled Debt Restructurings – Loan Modifications

We believe the distinction between loans modified as TDRs and total TDRs, which include bankruptcy loans, is important. Our loan modification programs focus on the mitigation of potential losses through making an economic concession to a borrower, whereas with loans for which we have received bankruptcy notification we have not taken any loss mitigation actions. The following table shows loans modified as TDRs by delinquency category at December 31, 2014 and 2013 (dollars in millions):

	Modifications Current	Modifications 30-89 Days Delinquent	Modifications 90-179 Days Delinquent	Modifications 180+ Days Delinquent	Total Recorded Investment in Modifications
December 31, 2014					
One- to four-family	$ 152	$ 14	$ 7	$ 12	$ 185
Home equity	145	10	5	9	169
Total	$ 297	$ 24	$ 12	$ 21	$ 354
December 31, 2013					
One- to four-family	$ 817	$ 92	$ 39	$ 88	$ 1,036
Home equity	162	13	4	9	188
Total	$ 979	$ 105	$ 43	$ 97	$ 1,224

The following table shows loans modified as TDRs and the specific valuation allowance by loan portfolio as well as the percentage of total expected losses at December 31, 2014 and 2013 (dollars in millions):

	Recorded Investment in Modifications before Charge-offs	Charge-offs	Recorded Investment in Modifications	Specific Valuation Allowance	Net Investment in Modifications	Specific Valuation Allowance as a % of Modifications	Total Expected Losses
December 31, 2014							
One- to four-family	$ 231	$ (46)	$ 185	$ (9)	$ 176	5%	24%
Home equity	305	(136)	169	(57)	112	34%	63%
Total	$ 536	$ (182)	$ 354	$ (66)	$ 288	19%	46%
December 31, 2013							
One- to four-family	$ 1,354	$ (318)	$ 1,036	$ (60)	$ 976	6%	28%
Home equity	338	(150)	188	(64)	124	34%	63%
Total	$ 1,692	$ (468)	$ 1,224	$ (124)	$ 1,100	10%	35%

The recorded investment in loans modified as TDRs includes the charge-offs related to certain loans that were written down to the estimated current value of the underlying property less estimated selling costs. These charge-offs were recorded on modified loans that were delinquent in excess of 180 days, in bankruptcy, or when certain characteristics of the loan, including CLTV, borrower's credit and type of modification, cast substantial doubt on the borrower's ability to repay the loan. Included in allowance for loan losses was a specific valuation allowance of $66 million and $124 million that was established for loans modified as TDRs at December 31, 2014 and 2013, respectively. The specific valuation allowance for these individually impaired loans represents the forecasted losses over the remaining life of the loan, including the economic concession to the borrower.

The total expected loss on loans modified as TDRs includes both the previously recorded charge-offs and the specific valuation allowance. Total expected losses on loans modified as TDRs increased from 35% at December 31, 2013 to 46% at December 31, 2014, primarily due to the sale of $0.8 billion of our one- to four-family loans modified as TDRs. See the Allowance for Loan Losses section above for additional information on this transaction.

Net Charge-offs

The following table provides an analysis of the allowance for loan losses and net charge-offs for the past five years (dollars in millions):

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
Allowance for loan losses, beginning of period	$ 453	$ 481	$ 823	$ 1,031	$ 1,183
Provision for loan losses	36	143	355	441	779
Charge-offs:					
One- to four-family	(44)	(41)	(190)	(229)	(303)
Home equity	(65)	(157)	(517)	(457)	(600)
Consumer and other	(17)	(33)	(51)	(59)	(80)
Total charge-offs	(126)	(231)	(758)	(745)	(983)
Recoveries:(1)					
One- to four-family	11	14	9	21	—
Home equity	24	34	40	58	27
Consumer and other	6	12	12	17	25
Total recoveries	41	60	61	96	52
Net charge-offs	(85)	(171)	(697)	(649)	(931)
Allowance for loan losses, end of period	$ 404	$ 453	$ 481	$ 823	$ 1,031
Net charge-offs to average loans receivable outstanding	1.2%	1.8%	5.8%	4.4%	5.1%

(1) Recoveries include the impact of mortgage originator settlements.

The following table allocates the allowance for loan losses by loan category for the past five years (dollars in millions):

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)
One- to four-family	$ 27	48.2%	$ 102	52.4%	$ 184	51.8%	$ 314	50.7%	$ 390	51.0%
Home equity	367	44.6	326	40.5	257	40.2	463	40.8	576	40.0
Consumer and other	10	7.2	25	7.1	40	8.0	46	8.5	65	9.0
Total allowance for loan losses	$ 404	100.0%	$ 453	100.0%	$ 481	100.0%	$ 823	100.0%	$ 1,031	100.0%

(1) Represents percentage of loans receivable in the category to total loans receivable, excluding premiums (discounts).

Loan losses are recognized when, based on management's estimate, it is probable that a loss has been incurred. The charge-off policy for both one- to four-family and home equity loans is to assess the value of the property when the loan has been delinquent for 180 days or has received bankruptcy notification, regardless of whether or not the property is in foreclosure, and charge off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs. Modified loans considered TDRs are charged off when they are identified as collateral dependent based on certain terms of the modification, which includes assigning a higher level of risk to loans in which the LTV or CLTV is greater than 110% or 125%, respectively, a borrower’s credit score is less than 600 and certain types of modifications, such as interest-only payments. Closed-end consumer loans are charged off when the loan has been 120 days delinquent or when it is determined that collection is not probable.

Net charge-offs for the year ended December 31, 2014 compared to 2013 decreased by $86 million, primarily driven by improving economic conditions, as evidenced by lower levels of delinquent loans and home price improvement and portfolio run-off. The decrease was partially offset by the charge-off of $42 million related to our sale of one- to four-family loans modified as TDRs during the second quarter of 2014. In addition, net charge-offs for the years ended December 31, 2014 and 2013 also included $11 million and $13 million of benefit recorded from settlements with third party mortgage originators, respectively. The timing and magnitude of charge-offs are affected by many factors and we anticipate variability from quarter to quarter, particularly as home equity lines of credit begin converting to amortizing loans.

Delinquent Loans

We believe the distinction between loans delinquent 90 to 179 days and loans delinquent 180 days and greater is important as loans delinquent 180 days and greater have been written down to their expected recovery value, whereas loans delinquent 90 to 179 days have not (unless they are in process of bankruptcy or are modifications that have substantial doubt as to the borrower's ability to repay the loan). We believe loans delinquent 90 to 179 days are an important measure because these loans are expected to drive the vast majority of future charge-offs. Additional charge-offs on loans delinquent 180 days and greater are possible if home prices decline beyond current expectations, but we do not anticipate these charge-offs to be significant, particularly when compared to the expected charge-offs on loans delinquent 90 to 179 days. We expect the balances of one- to four-family loans delinquent 180 days and greater to decline over time; however, we expect the balances to remain at high levels in the near term due to the extensive amount of time it takes to foreclose on a property in the current real estate market. The following table shows the comparative data for loans delinquent 90 to 179 days (dollars in millions):

	December 31,	
	2014	2013
One- to four-family	$ 28	$ 70
Home equity	29	36
Consumer and other loans	1	3
Total loans delinquent 90-179 days	$ 58	$ 109
Loans delinquent 90-179 days as a percentage of gross loans receivable	0.9%	1.3%

During the year ended December 31, 2014, loans delinquent 90 to 179 days decreased by $51 million to $58 million, driven primarily by the sale of our one- to four-family loans modified as TDRs during the second quarter of 2014.

In addition, we monitor loans in which a borrower's current credit history casts doubt on their ability to repay a loan. We classify loans as special mention when they are between 30 and 89 days past due. The following table shows the comparative data for special mention loans (dollars in millions):

	December 31,	
	2014	2013
One- to four-family	$ 88	$ 190
Home equity	60	69
Consumer and other loans	7	12
Total special mention loans	$ 155	$ 271
Special mention loans receivable as a percentage of gross loans receivable	2.4%	3.2%

The trend in special mention loan balances is generally indicative of the expected trend for charge-offs in future periods, as these loans have a greater propensity to migrate into nonaccrual status and ultimately charge-off. One- to four-family loans are generally secured in a first lien position by real estate assets, reducing the potential loss when compared to an unsecured loan. Home equity loans are generally secured by real estate assets; however, the majority of these loans are secured in a second lien position, which substantially increases the potential loss when compared to a first lien position. The loss severity of our second lien home equity loans was approximately 93% at December 31, 2014.

During the year ended December 31, 2014, special mention loans decreased by $116 million to $155 million and are down 85% from their peak of $1.0 billion at December 31, 2008. This decrease was largely due to the sale of our one- to four-family loans modified as TDRs during the second quarter of 2014. While the level of special mention loans can fluctuate significantly in any given period, we believe the continued decrease is an encouraging sign regarding the future credit performance of the mortgage loan portfolio.

Nonperforming Assets

We classify loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien. The following table shows the comparative data for nonperforming loans and assets for the past five years (dollars in millions):

	December 31,				
	2014	2013	2012	2011	2010
One- to four-family	294	526	$ 639	$ 930	$ 1,256
Home equity	165	164	248	281	361
Consumer and other	1	3	6	5	6
Total nonperforming loans receivable	460	693	893	1,216	1,623
Real estate owned and other repossessed assets, net	38	53	71	88	133
Total nonperforming assets, net	$ 498	$ 746	$ 964	$ 1,304	$ 1,756
Nonperforming loans receivable as a percentage of gross loans receivable	7.2%	8.1%	8.4%	9.2%	10.0%
One- to four-family allowance for loan losses as a percentage of one- to four-family nonperforming loans receivable	9.1%	19.5%	28.8%	33.8%	31.0%
Home equity allowance for loan losses as a percentage of home equity nonperforming loans receivable	222.5%	198.3%	104.0%	164.6%	159.7%
Consumer and other allowance for loan losses as a percentage of consumer and other nonperforming loans receivable	774.6%	868.3%	617.2%	1,000.5%	1,194.6%
Total allowance for loan losses as a percentage of total nonperforming loans receivable	87.8%	65.4%	53.8%	67.7%	63.6%

During the year ended December 31, 2014, nonperforming assets, net decreased $248 million to $498 million when compared to December 31, 2013. The decrease in the one- to four-family nonperforming loans receivable during the year ended December 31, 2014 was primarily due to the sale of $0.8 billion of our one- to four-family loans modified as TDRs, which included $377 million of nonperforming loans. The decrease in nonperforming loans receivable was partially offset by an increase in nonperforming TDRs that had been charged-off due to bankruptcy notification. In February 2014, the OCC issued clarifying guidance related to consumer debt discharged in Chapter 7 bankruptcy proceedings. As a result of the clarifying guidance, beginning the first quarter of 2014 these bankruptcy loans remain on nonaccrual status regardless of payment history. This change did not have a material impact on our statement of financial condition, results of operations or cash flows. Prior to this change, we had $238 million of bankruptcy loans classified as performing loans at December 31, 2013.

During the year ended December 31, 2014, we recognized $19 million of operating interest income on loans that were nonperforming at December 31, 2014. If our nonperforming loans at December 31, 2014 had been performing in accordance with their terms, we would have recorded additional operating interest income of approximately $16 million for the year ended December 31, 2014. At December 31, 2014 there were no commitments to lend additional funds to any of these borrowers.

Securities

We focus primarily on security type and credit rating to monitor credit risk in our securities portfolios. We consider securities backed by the U.S. government or its agencies to have low credit risk as the long-term debt rating of the U.S. government is AA+ by S&P and AAA by Moody’s and Fitch at December 31, 2014. At December 31, 2014, the amortized cost of these securities accounted for over 99% of our total securities portfolio. We review the remaining debt securities that were not backed by the U.S. government or its agencies according to their credit ratings from S&P, Moody’s and Fitch where available. At December 31, 2014, all municipal bonds and corporate bonds were rated investment grade (defined as a rating equivalent to a Moody’s rating of "Baa3" or higher, or a S&P or Fitch rating of "BBB-" or higher).

Certain non-agency CMOs were other-than-temporarily impaired as a result of the deterioration in the expected credit performance of the underlying loans in those specific securities. During the year ended December 31, 2014, we sold our remaining $17 million in amortized cost of the available-for-sale non-agency CMOs as part of our continued focus to reduce legacy risks.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with GAAP. Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies of Part II Item 8. Financial Statements and Supplementary Data contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. We believe that of our significant accounting policies, the following are critical because they are based on estimates and assumptions that require complex and subjective judgments by management: allowance for loan losses; valuation of goodwill and other intangible assets; estimates of effective tax rates, deferred taxes and valuation allowance; classification and valuation of certain investments; accounting for derivative instruments; and fair value measurements. Changes in these estimates or assumptions could materially impact our financial condition and results of operations, and actual results could differ from our estimates.

Allowance for Loan Losses

Description

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. In determining the adequacy of the allowance, we perform ongoing evaluations of the loan portfolio and loss forecasting assumptions. As of December 31, 2014, the allowance for loan losses was $404 million on $6.3 billion of total loans receivable designated as held-for-investment.

Judgments

Determining the adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods. We evaluate the adequacy of the allowance for loan losses by loan portfolio segment: one- to four-family, home equity and consumer and other. The estimate of the allowance for loan losses is based on a variety of quantitative and qualitative factors, including:

- the composition and quality of the portfolio;
- delinquency levels and trends;
- current and historical charge-off and loss experience;
- our historical loss mitigation experience;
- the condition of the real estate market and geographic concentrations within the loan portfolio;
- the interest rate climate;
- the overall availability of housing credit; and
- general economic conditions.

The allowance for loan losses is typically equal to management's forecast of loan losses in the twelve months following the balance sheet date as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs.

For loans that are not TDRs, we established a general allowance. The one- to four-family and home equity loan portfolios represented 48% and 45%, respectively, of total loans receivable as of December 31, 2014. The one- to four-family and home equity loan portfolios are separated into risk segments based on key risk factors, which include but are not limited to loan type, delinquency history, documentation type, LTV/CLTV ratio and borrowers' credit scores. Both current CLTV and FICO scores are among the factors utilized to categorize the risk associated with mortgage loans and assign a probability assumption of future default. We utilize historical mortgage loan performance data to develop the forecast of delinquency and default for these risk segments. The general allowance for loan losses also included a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors we believe may impact the level of credit losses. We utilize a qualitative factor framework whereby, on a quarterly basis, management assesses the risk associated with three main factors. These factors are: external factors, such as changes in the macro-economic, legal and regulatory environment; internal factors, such as procedural changes and reliance on third parties; and portfolio specific factors, such as the impact on borrowers' monthly payments from one- to four-family loans converting from interest only to amortizing. The uncertainty related to these factors may expand over time, temporarily increasing the qualitative component in advance of the more precise identification of these probable losses being captured within the general allowance. The total qualitative component was $37 million and $62 million as of December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, we enhanced our quantitative allowance methodology to identify higher risk home equity lines of credit and extend the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on a subset of these higher risk loans. These enhancements drove the migration of estimated losses previously captured on these loans from the qualitative component to the quantitative component of the general allowance, and drove the majority of the provision for loan losses within the home equity portfolio during the year ended December 31, 2014. During the year ended December 31, 2013, the Company increased its default assumptions related to balloon loans and extended the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on higher risk balloon loans. The overall impact of these refinements drove the substantial majority of provision for loan losses during the year ended December 31, 2013.

The consumer and other loan portfolio is separated into risk segments by product and delinquency status. We utilize historical performance data and historical recovery rates on collateral liquidation to forecast delinquency and loss at the product level. The consumer and other loan portfolio represented 7% of total loans receivable as of December 31, 2014. The qualitative component for the consumer and other loan portfolio was $1 million and $4 million as of December 31, 2014 and 2013, respectively.

For modified loans accounted for as TDRs that are valued using the discounted cash flow model, we established a specific allowance. The specific allowance for TDRs factors in the historical default rate of an individual loan before being modified as a TDR in the discounted cash flow analysis in order to determine that specific loan's expected impairment. Specifically, a loan that has a more severe delinquency history prior to modification will have a higher future default rate in the discounted cash flow analysis than a loan that was not as severely delinquent. For both of the one- to four-family and home equity loan portfolio segments, the pre-modification delinquency status, the borrower's current credit score and other credit bureau attributes, in addition to each loan's individual default experience and credit characteristics, are incorporated into the calculation of the specific allowance. A specific allowance is established to the extent that the recorded investment exceeds the discounted cash flows of a TDR with a corresponding charge to provision for loan losses. The specific allowance for these individually impaired loans represents the forecasted losses over the estimated remaining life of the loan, including the economic concession to the borrower.

Effects if Actual Results Differ

Historic volatility in the credit markets has substantially increased the complexity and uncertainty involved in estimating the losses inherent in the loan portfolio. In the current market, it is difficult to estimate how potential changes in the quantitative and qualitative factors, including the impact of home equity lines of credit converting from interest only to amortizing loans or requiring borrowers to repay the loan in full at the end of the draw period, might impact the allowance for loan losses. If our underlying assumptions and judgments prove to be inaccurate, the allowance for loan losses could be insufficient to cover actual losses. We may be required under such circumstances to further increase the provision for loan losses, which could have an adverse effect on the regulatory capital position and results of operations in future periods.

During the normal course of conducting examinations, our banking regulators, the OCC and Federal Reserve, continue to review our business and practices. This process is dynamic and ongoing and we cannot be certain that additional changes or actions will not result from their continuing review.

Valuation of Goodwill and Other Intangible Assets

Description

Goodwill and other intangible assets are evaluated for impairment on an annual basis as of November 30 and in interim periods when events or changes indicate the carrying value may not be recoverable, such as a significant deterioration in the operating environment or a decision to sell or dispose of a reporting unit. Goodwill and other intangible assets net of amortization were $1.8 billion and $0.2 billion, respectively, at December 31, 2014.

Judgments

Goodwill is allocated to reporting units, which are components of the business that are one level below operating segments. Reporting units are evaluated for impairment individually during the annual assessment. Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. Management judgment is required to assess whether the carrying value of the reporting unit can be supported by the fair value of the individual reporting unit. There are various valuation methodologies, such as the market approach or income approach, that may be used to estimate the fair value of reporting units. In applying these methodologies, we utilize a number of factors, including actual operating results, future business plans, economic projections, and market data. At December 31, 2014, all $1.8 billion of goodwill was allocated to the retail brokerage reporting unit.

In conducting the annual goodwill impairment test for 2014, we elected to perform a qualitative analysis for the retail brokerage reporting unit. We took into consideration all relevant events and circumstances related to the retail brokerage business as well as the results of the most recent quantitative test performed in 2012, which indicated the estimated fair value of the retail brokerage reporting unit as a percentage of book value was approximately 190%. In conducting the quantitative goodwill impairment test for 2012, we determined the fair value of our reporting units using both a discounted cash flow analysis, a form of the income approach, and the publicly traded company method, a form of the market approach, combined with a control premium. The discounted cash flow analysis required management to make projections about future revenue and costs, discounting the cash flows to present value using a risk-adjusted discount rate. The publicly traded company method consisted of identifying similar publicly traded companies. As a result of the qualitative analysis, we concluded that it was not more likely than not that the fair value of the retail brokerage reporting unit was less than its carrying amount, and therefore it was not necessary to perform a quantitative impairment test for 2014. Based on the steps performed, we concluded that goodwill assigned to the retail brokerage reporting unit was not impaired as of December 31, 2014.

We also evaluate the remaining useful lives of intangible assets with finite lives each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Our intangible assets have a weighted average remaining useful life of 11 years as of December 31, 2014. The Company currently does not have any intangible assets with indefinite lives.

Effects if Actual Results Differ

If our estimates of fair value for the retail brokerage reporting unit change due to changes in our business or other factors, we may determine that an impairment charge is necessary. Estimates of fair value are determined based on a complex model using estimated future cash flows and company comparisons. If the actual cash flows are less than the estimated future cash flows used in the annual assessment, then goodwill would have to be tested for impairment.

Intangible assets with finite lives are amortized over their estimated useful lives. If changes in the estimated underlying revenue occur, impairment or a change in the remaining life may need to be recognized.

Estimates of Effective Tax Rates, Deferred Taxes and Valuation Allowance

Description

In preparing the consolidated financial statements, we calculate income tax expense (benefit) based on our interpretation of the tax laws in the various jurisdictions where we conduct business. This requires us to estimate current tax obligations and the realizability of uncertain tax positions and to assess temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. These differences result in deferred tax assets and liabilities, the net amount of which we show as other assets or other liabilities on the consolidated balance sheet. We must also assess the likelihood that deferred tax assets will be realized. To the extent we believe that realization is not more likely than not, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance, we generally record a corresponding increase to income tax expense in the consolidated statement of income (loss) in the period of the change. Conversely, to the extent circumstances indicate that realization is more likely than not, the valuation allowance is reversed to the amount realizable, which reduces income tax expense. At December 31, 2014 we had net deferred tax assets of $951 million, net of a valuation allowance (on state and foreign country deferred tax assets and charitable contributions) of $91 million.

Judgments

Management must make significant judgments to determine income tax expense (benefit), deferred tax assets and liabilities and any valuation allowance to be recorded against deferred tax assets. Changes in our estimates occur periodically due to changes in tax rates, changes in business operations, implementation of tax planning strategies, the expiration of relevant statutes of limitations, resolution with taxing authorities of uncertain tax positions and newly enacted statutory, judicial and regulatory guidance.

The most significant tax related judgment made by management was the determination of whether to provide for a valuation allowance against deferred tax assets. We are required to establish a valuation allowance for deferred tax assets and record a corresponding increase to income tax expense if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized. If we were to conclude that a valuation allowance was required, the resulting loss could have a material adverse effect on our financial condition and results of operations. As of December 31, 2014, we did not establish a valuation allowance against our federal deferred tax assets as we believe that it is more likely than not that all of these assets will be realized. Approximately 40% of our existing federal deferred tax assets are not related to net operating losses and therefore, have no expiration date. We expect to utilize the majority of the existing federal deferred tax assets within the next four years.

Our evaluation of the need for a valuation allowance focused on identifying significant, objective evidence that we will be able to realize the deferred tax assets in the future. We determined that our expectations regarding future earnings are objectively verifiable due to various factors. One factor is the consistent profitability of the core business, the trading and investing segment, which has generated substantial income for each of the last 11 years, including through uncertain economic and regulatory environments. The core business is driven by brokerage customer activity and includes trading, brokerage related cash, margin lending, retirement and investing, and other brokerage related activities. These activities drive variable expenses that correlate to the volume of customer activity, which has resulted in stable, ongoing profitability.

Another factor is the mitigation of losses in the balance sheet management segment, which generated a large net operating loss in 2007 caused by the crisis in the residential real estate and credit markets. Much of this loss came from the sale of the asset-backed securities portfolio and credit losses from the mortgage loan portfolio. We no longer hold any of those asset-backed securities and shut down mortgage loan acquisition activities in 2007. In effect, the key business activities that led to the generation of the deferred tax assets were shut down over seven years ago. In addition, we have realized the benefits of various credit loss mitigation activities and improving economic conditions, including home price improvement related to our loan portfolio. As a result, the losses have continued to decline significantly and the balance sheet management segment has been profitable since 2012.

We maintain a valuation allowance for certain of our state deferred tax assets as we have concluded that it is more likely than not that they will not be realized. At December 31, 2014, we had total state deferred tax assets of approximately $143 million related to our state net operating loss carryforwards and temporary differences with a valuation allowance of $48 million against such deferred tax assets.

Effects if Actual Results Differ

Changes in income tax expense (benefit) due to actual effective tax rates differing from our estimates affect accrued taxes and could be material to our results of operations for any particular reporting period. In evaluating the need for a valuation allowance, we estimated future taxable income based on management-approved forecasts. This process required significant judgment by management about matters that are by nature uncertain. If future events differ significantly from our current forecasts, a valuation allowance may need to be established or increased, which could have a material adverse effect on our financial condition and results of operations.

Classification and Valuation of Certain Investments

Description

The classification of an investment determines its accounting treatment. We classify our investments in debt securities as trading, available-for-sale or held-to-maturity and our investments in equity securities as trading or available-for-sale. Securities classified as available-for-sale are carried at fair value with unrealized gains and losses recognized in accumulated other comprehensive income (loss), net of tax. Held-to-maturity debt securities are carried at amortized cost based on our intent and ability to hold these securities to maturity. Declines in fair values of available-for-sale and held-to-maturity securities that we believe to be other-than-temporary are included in the consolidated statement of income (loss) in the OTTI line item. As of December 31, 2014, the available-for-sale and held-to-maturity securities portfolios consisted of debt and equity securities, the majority of which were agency residential mortgage-backed securities.

Available-for-sale and held-to-maturity securities that have unrealized or unrecognized losses (impaired securities) are evaluated for OTTI at each balance sheet date. We consider OTTI for an available-for-sale or held-to-maturity debt security to have occurred if one of the following conditions are met: we intend to sell the impaired debt security as of the balance sheet date; it is more likely than not that we will be required to sell the impaired debt security before recovery of the security's amortized cost basis; or we do not expect to recover the entire amortized cost basis of the security. If we intend to sell an impaired debt security or if it is more likely than not that we will be required to sell the impaired debt security before recovery of the security's amortized cost basis, we will recognize OTTI in earnings equal to the entire difference between the security's amortized cost basis and the security's fair value. For impaired debt securities that we do not intend to sell and it is not more likely than not that we will be required to sell before recovery of the security's amortized cost basis, if we do not expect to recover the entire amortized cost basis of the securities, we will separate OTTI into two components: 1) the amount related to credit loss, recognized in earnings; and 2) the noncredit portion of OTTI, recognized through other comprehensive income (loss). We consider OTTI for an available-for-sale equity security to have occurred if the decline in the security's fair value below its cost basis is deemed other than temporary based on evaluation of both qualitative and quantitative valuation measures. If we determine the impairment of an available-for-sale equity security is other-than-temporary, we will recognize OTTI in earnings equal to the entire difference between the security's amortized cost basis and the security's fair value. If we intend to sell an impaired equity security and do not expect to recover the entire cost basis of the security prior to the sale, we will recognize OTTI in earnings in the period the decision to sell is made.

For the year ended December 31, 2014, we recognized no impairment in our debt and equity securities portfolios.

Judgments

Our evaluation of whether we intend to sell an impaired debt security considers whether management has decided to sell the security as of the balance sheet date. Our evaluation of whether it is more likely than not that we will be required to sell an impaired debt security before recovery of the security's amortized cost basis considers the likelihood of sales that involve legal, regulatory or operational requirements. For impaired debt securities that we do not intend to sell and it is not more likely than not that we will be required to sell before recovery of the security's amortized cost basis, we use both qualitative and quantitative valuation measures to evaluate whether we expect to recover the entire amortized cost basis of the security. We consider all available information relevant to the collectability of the security, including credit enhancements, security structure, vintage, credit ratings and other relevant collateral characteristics.

Effects if Actual Results Differ

Determining if a security has OTTI is complex and requires judgment by management about circumstances that are inherently uncertain. Subsequent evaluations of these securities, in light of factors then prevailing, may require additional OTTI to be recognized in future periods. If all available-for-sale and held-to-maturity securities with fair values lower than amortized cost as of December 31, 2014 were other-than-temporarily impaired and the gross OTTI was recorded through earnings, we would have recorded a pre-tax impairment loss of $152 million.

Accounting for Derivative Instruments

Description

We enter into derivative transactions primarily to protect against interest rate risk on the value of certain assets, liabilities and future cash flows. Accounting for derivatives differs significantly depending on whether a derivative is designated as a hedge based on the applicable accounting guidance and, if designated as a hedge, the type of hedge designation. Derivative instruments in hedging relationships that mitigate exposure to changes in the fair value of assets or liabilities are considered fair value hedges. Derivative instruments designated in hedging relationships that mitigate exposure to the variability in expected future cash flows or other forecasted transactions are considered cash flow hedges. In order to qualify for hedge accounting treatment, our documentation must indicate the intention to designate the derivative as a hedge of a specific asset or liability or a future cash flow at its inception. Effectiveness of the hedge must be monitored over the life of the derivative instrument.

Each derivative instrument is recorded on the consolidated balance sheet at fair value as a freestanding asset or liability. Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value of the asset or liability being hedged on the consolidated balance sheet. Changes in the fair value of both (1) the derivative instrument and (2) the underlying assets or liabilities are recognized in the gains on loans and securities, net line item in the consolidated statement of income (loss). Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the consolidated balance sheet. The effective portion of the change in fair value of the derivative instrument in a cash flow hedge is reported as a component of accumulated other comprehensive loss, net of tax in the consolidated balance sheet, for both active and terminated hedges. Amounts are reclassified from accumulated other comprehensive loss into net operating interest income as a yield adjustment in the same period the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative instrument in a cash flow hedge is reported in the gains on loans and securities, net line item in the consolidated statement of income (loss).

Cash flow hedge relationships are treated as effective hedges as long as the hedged forecasted transactions remain probable and the hedges continue to meet the requirements of the applicable accounting guidance. If it becomes probable that a hedged forecasted transaction will not occur, amounts included in accumulated other comprehensive loss related to the specific hedging instruments would be immediately reclassified into the gains on loans and securities, net line item in the consolidated statement of income (loss). As of December 31, 2014, we had an unrealized pre-tax loss reported in accumulated other comprehensive loss of $422 million related to cash flow hedges.

Judgments

The future issuances of liabilities underlying cash flow hedge relationships, including repurchase agreements, are largely dependent on the market demand and liquidity in the wholesale borrowings market. As of December 31, 2014, we believe the forecasted issuance of all liabilities in cash flow hedge relationships is probable. However, unexpected changes in market conditions in future periods could impact our ability to issue these liabilities. We believe the forecasted issuance of liabilities in the form of repurchase agreements is most susceptible to an unexpected change in market conditions.

Effects if Actual Results Differ

If our hedging strategies were to no longer meet the effectiveness criteria or our assumptions about the nature and timing of forecasted transactions were to be inaccurate, we could no longer apply hedge accounting and our reported results would be significantly affected. For example, if we determined that the forecasted issuance of repurchase agreements associated with our cash flow hedges was no longer probable, the $341 million pre-tax loss in accumulated other comprehensive loss related to cash flow hedges on repurchase agreements would be reclassified into the gains on loans and securities, net line item in the consolidated statement of income (loss) in the period in which this determination was made. This loss would have a material adverse effect on our regulatory capital position and results of operations.

Fair Value Measurements

Description

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As of December 31, 2014, 27% and less than 1% of total assets and total liabilities, respectively, represented instruments measured at fair value on a recurring basis. Certain other assets are recorded at fair value on a nonrecurring basis: 1) one- to four-family and home equity loans in which the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs has been charged-off; and 2) real estate owned that is carried at the lower of the property's carrying value or fair value less estimated selling costs.

The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company.
- Level 2—Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Unobservable inputs that are significant to the fair value of the assets or liabilities.

In determining fair value, we may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, our own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

Judgments

Of assets measured at fair value on a recurring basis, 90% were available-for-sale residential mortgage-backed securities composed of agency mortgage backed securities and CMOs as of December 31, 2014. The fair value of agency mortgage-backed securities and CMOs was determined using quoted market prices, recent market transactions, spread data and our own trading activities for identical or similar instruments and were categorized in Level 2 of the fair value hierarchy.

The Company also evaluates loans and REO that have been subject to fair value measurement requirements on a quarterly basis in accordance with policies and procedures that were designed to be in compliance with guidance from the Company’s regulators. These policies and procedures govern the frequency of the review, the use of acceptable valuation methods, and the consideration of estimated selling costs.

Effects if Actual Results Differ

Different methodologies or assumptions could be used to determine the fair value of certain assets and liabilities. These could result in different estimates of fair value, which could materially impact the amounts of realized and unrealized gains and losses recognized in our statements of financial condition and results of operations. As of December 31, 2014, none of our assets or liabilities measured at fair value on a recurring basis were categorized as Level 3 and $116 million of our assets measured at fair value on a nonrecurring basis were categorized as Level 3. While our recurring and nonrecurring fair value estimates of Level 3 instruments utilized observable inputs where available, the valuations included significant management judgment in determining the relevance and reliability of valuation information considered.

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "*Statistical Disclosure by Bank Holding Companies.*" These disclosures are at the enterprise level.

Interest Rates and Operating Interest Differential

Increases and decreases in operating interest income and operating interest expense result from changes in average balances (volume) of enterprise interest-earning assets and enterprise interest-bearing liabilities, as well as changes in average interest rates (rate). The following table shows the effect that these factors had on the interest earned on our enterprise interest-earning assets and the interest incurred on our enterprise interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately (dollars in millions):

	2014 Compared to 2013 Increase (Decrease) Due To			2013 Compared to 2012 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Enterprise interest-earning assets:						
Loans[1]	$ (93)	$ (5)	$ (98)	$ (101)	$ —	$ (101)
Available-for-sale securities	(7)	16	9	(48)	(33)	(81)
Held-to-maturity securities	43	30	73	36	(18)	18
Margin receivables	54	(14)	40	18	(10)	8
Cash and equivalents	—	(1)	(1)	(1)	—	(1)
Segregated cash	1	—	1	—	—	—
Securities borrowed and other	(3)	50	47	6	(4)	2
Total enterprise interest-earning assets[2]	(5)	76	71	(90)	(65)	(155)
Enterprise interest-bearing liabilities:						
Deposits	—	(5)	(5)	(2)	(9)	(11)
Customer payables	—	(1)	(1)	—	(2)	(2)
Securities sold under agreements to repurchase	(15)	(10)	(25)	(10)	—	(10)
FHLB advances and other borrowings	—	(3)	(3)	(54)	29	(25)
Securities loaned and other	—	—	—	—	—	—
Total enterprise interest-bearing liabilities	(15)	(19)	(34)	(66)	18	(48)
Change in enterprise net interest income	$ 10	$ 95	$ 105	$ (24)	$ (83)	$ (107)

(1) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in operating interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.
(2) Amount includes a taxable equivalent increase in operating interest income of $1 million, $1 million and $1 million for years ended December 31, 2014, 2013 and 2012, respectively.

Lending Activities

The following table presents the balance and associated percentage of each major loan category (dollars in millions):

	December 31,									
	2014		2013		2012		2011		2010	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
One- to four-family	$ 3,060	48.2%	$ 4,475	52.5%	$ 5,442	51.8%	$ 6,616	50.7%	$ 8,170	51.0%
Home equity	2,834	44.6	3,454	40.4	4,224	40.2	5,329	40.8	6,410	40.0
Consumer and other:	455	7.2	602	7.1	845	8.0	1,113	8.5	1,444	9.0
Total loans receivable	6,349	100.0%	8,531	100.0%	10,511	100.0%	13,058	100.0%	16,024	100.0%
Adjustments:										
Premiums (discounts) and deferred fees on loans	34		45		69		98		129	
Allowance for loan losses	(404)		(453)		(481)		(823)		(1,031)	
Total adjustments	(370)		(408)		(412)		(725)		(902)	
Loans receivable, net	$ 5,979		$ 8,123		$ 10,099		$ 12,333		$ 15,122	

The following table shows the contractual maturities of the loan portfolio at December 31, 2014, including scheduled principal repayments. This table does not, however, include any estimate of prepayments. These prepayments could significantly shorten the average loan lives and cause the actual timing of the loan repayments to differ from those shown in the following table (dollars in millions):

	Due in(1)			
	< 1 Year	1-5 Years	>5 Years	Total
One- to four-family	$ 94	$ 414	$ 2,552	$ 3,060
Home equity	143	649	2,042	2,834
Consumer and other	47	217	191	455
Total loans receivable	$ 284	$ 1,280	$ 4,785	$ 6,349

(1) Estimated scheduled principal repayments are calculated using weighted-average interest rate and weighted-average remaining maturity of each loan portfolio.

The following table shows the distribution of those loans that mature in more than one year between fixed and adjustable interest rate loans at December 31, 2014 (dollars in millions):

	Interest Rate Type		
	Fixed	Adjustable	Total
One- to four-family	$ 506	$ 2,460	$ 2,966
Home equity	498	2,193	2,691
Consumer and other	408	—	408
Total loans receivable	$ 1,412	$ 4,653	$ 6,065

Securities

Our portfolio of mortgage-backed and investment securities is classified into the following categories: trading, available-for-sale or held-to-maturity.

Our mortgage-backed securities portfolio is primarily composed of:

- Fannie Mae participation certificates, guaranteed by Fannie Mae;
- Freddie Mac participation certificates, guaranteed by Freddie Mac;
- Ginnie Mae participation certificates, guaranteed by Ginnie Mae, which is backed by the full faith and credit of the U.S. Government; and
- Collateralized mortgage obligations, which are guaranteed by one of the three above organizations.

The majority of the investment securities portfolio is composed of agency debt securities guaranteed by the Small Business Administration and agency debentures which are unsecured senior debt offered by Fannie Mae, Freddie Mac and other government agencies.

Available-for-sale securities are carried at fair value with the unrealized gains and losses reflected as a component of accumulated other comprehensive loss. Held-to-maturity securities are carried at amortized cost based on the Company's positive intent and ability to hold these securities to maturity.

The following table shows the amortized cost and fair value of our mortgage-backed and investment securities portfolio that the Company held and classified as available-for-sale and held-to-maturity (dollars in millions):

	December 31,					
	2014		2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities:						
Debt securities:						
Residential mortgage-backed securities:						
Agency mortgage-backed securities and CMOs	$ 11,156	$ 11,164	$ 12,505	$ 12,236	$ 11,881	$ 12,097
Non-agency CMOs	—	—	17	14	260	235
Total residential mortgage-backed securities	11,156	11,164	12,522	12,250	12,141	12,332
Agency debentures	620	648	520	466	516	528
Agency debt securities	487	499	832	831	525	547
Municipal bonds	40	40	42	40	30	31
Corporate bonds	5	4	6	5	6	5
Total debt securities	12,308	12,355	13,922	13,592	13,218	13,443
Publicly traded equity securities(1)	33	33	—	—	—	—
Total available-for-sale securities	$ 12,341	$ 12,388	$ 13,922	$ 13,592	$ 13,218	$ 13,443
Held-to-maturity securities:						
Agency mortgage-backed securities and CMOs	$ 9,793	$ 9,971	$ 8,359	$ 8,293	$ 7,888	$ 8,182
Agency debentures	164	166	164	168	163	170
Agency debt securities	2,281	2,329	1,658	1,631	1,489	1,558
Other non-agency debt securities	10	10	—	—	—	—
Total held-to-maturity securities	$ 12,248	$ 12,476	$ 10,181	$ 10,092	$ 9,540	$ 9,910

(1) Publicly traded equity securities consisted of investments in a mutual fund related to the Community Reinvestment Act.

The following table shows the scheduled maturities, carrying values and current yields for the Company's available-for-sale and held-to-maturity investment portfolio at December 31, 2014 (dollars in millions):

	Within One Year		One to Five Years		Five to Ten Years		After Ten Years		Total	
	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield
Available-for-sale securities:										
Debt securities:										
Agency residential mortgage-backed securities and CMOs	$ 3	1.45%	$ 9	1.89%	$ 421	2.39%	$ 10,723	2.67%	$ 11,156	2.66%
Agency debentures	—	—	—	—	104	2.75%	516	3.76%	620	3.59%
Agency debt securities	—	—	—	—	314	3.24%	173	2.93%	487	3.13%
Municipal bonds	—	—	—	—	3	4.50%	37	3.91%	40	3.95%
Corporate bonds	—	—	—	—	—	—	5	0.76%	5	0.76%
Total available-for-sale debt securities	$ 3		$ 9		$ 842		$ 11,454		$ 12,308	
Held-to-maturity securities:										
Agency residential mortgage-backed securities and CMOs	$ 5	2.20%	$ 882	2.90%	$ 1,486	3.17%	$ 7,420	3.15%	$ 9,793	3.13%
Agency debentures	164	2.01%	—	—	—	—	—	—	164	2.01%
Agency debt securities	—	—	—	—	1,301	2.90%	980	2.91%	2,281	2.90%
Other non-agency debt securities	—	—	10	1.50%	—	—	—	—	10	1.50%
Total held-to-maturity securities	$ 169		$ 892		$ 2,787		$ 8,400		$ 12,248	

Borrowings

Deposits represent our most significant source of funding. In addition, we borrow from the FHLB and sell securities under repurchase agreements.

We are a member of, and own capital stock in, the FHLB system. The FHLB provides us with reserve credit capacity and authorizes us to apply for advances based on the security of pledged mortgage loans and other assets—principally securities that are obligations of, or guaranteed by, the U.S. Government—provided we meet certain creditworthiness standards. At December 31, 2014, outstanding advances from the FHLB totaled $920 million at interest rates ranging from 0.2% to 0.7% and at a weighted-average rate of 0.4%.

We also raise funds by selling securities under agreements to repurchase the same or similar securities. The counterparties to these agreements hold the securities in custody. We treat repurchase agreements as borrowings and secure them with designated fixed- and variable-rate securities. We also participate in the Federal Reserve Bank's term investment option and treasury, tax and loan borrowing programs. We use the proceeds from these transactions to meet our cash flow or asset/liability matching needs.

The following table sets forth information regarding the weighted-average interest rates and the highest and average month-end balances of borrowings (dollars in millions):

	Ending Balance	Weighted-Average Interest Rate (1)	Maximum Amount at Month-End	Weighted-Average Balance	Weighted-Average Interest Rate(2)
At or for the year ended December 31, 2014:					
Securities sold under agreements to repurchase	$ 3,672	0.44%	$ 4,920	$ 3,993	3.07%
FHLB advances and other borrowings	$ 1,299	1.19%	$ 1,299	$ 1,288	5.05%
At or for the year ended December 31, 2013:					
Securities sold under agreements to repurchase	$ 4,543	0.57%	$ 4,599	$ 4,466	3.32%
FHLB advances and other borrowings	$ 1,279	1.20%	$ 1,627	$ 1,291	5.29%
At or for the year ended December 31, 2012:					
Securities sold under agreements to repurchase	$ 4,455	0.70%	$ 5,025	$ 4,775	3.32%
FHLB advances and other borrowings	$ 1,259	1.27%	$ 2,744	$ 2,465	3.76%

(1) Weighted-average interest rates are based on ending balances and exclude hedging costs.
(2) Weighted-average interest rates are based on average balances and include hedging costs.

GLOSSARY OF TERMS

Active accounts—Accounts with a balance of $25 or more or a trade in the last six months.

Active customers—Customers that have an account with a balance of $25 or more or a trade in the last six months.

Active trader—The customer group that includes those who execute 30 or more trades per quarter.

Adjusted total assets—E*TRADE Bank-only assets composed of total assets plus/(less) unrealized losses (gains) on available-for-sale securities, less disallowed deferred tax assets, goodwill and certain other intangible assets.

Agency—U.S. Government sponsored enterprises and federal agencies, such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, the Small Business Administration and the Federal Home Loan Bank.

ALCO—Asset Liability Committee.

AML—Anti-Money Laundering.

APIC—Additional paid-in capital.

Average commission per trade—Total trading and investing segment commissions revenue divided by total number of revenue trades.

Average equity to average total assets—Average total shareholders' equity divided by average total assets.

Bank—ETB Holdings, Inc. ("ETBH"), the entity that is our bank holding company and parent to E*TRADE Bank.

Basis point—One one-hundredth of a percentage point.

BCBS—International Basel Committee on Banking Supervision.

BOLI—Bank-Owned Life Insurance.

Brokerage account attrition rate—Attriting brokerage accounts, which are gross new brokerage accounts less net new brokerage accounts, divided by total brokerage accounts at the previous period end.

Brokerage related cash—Customer sweep deposits, customer payables and money market balances, including those held by third parties.

Cash flow hedge—A derivative instrument designated in a hedging relationship that mitigates exposure to variability in expected future cash flows attributable to a particular risk.

CFPB—Consumer Financial Protection Bureau.

CFTC—Commodity Futures Trading Commission.

Charge-off—The result of removing a loan or portion of a loan from an entity's balance sheet because the loan is considered to be uncollectible.

CLTV—Combined loan-to-value.

CMOs—Collateralized mortgage obligations.

Consumer loans—Loans that are secured by real personal property, such as recreational vehicles.

Corporate cash—Cash held at the parent company as well as cash held in certain subsidiaries that can distribute cash to the parent company without any regulatory approval.

Customer assets—Market value of all customer assets held by the Company including security holdings, deposits and customer payables, as well as customer assets held by third parties and vested unexercised options.

Daily average revenue trades ("DARTs")—Total revenue trades in a period divided by the number of trading days during that period.

Derivative—A financial instrument or other contract, the price of which is directly dependent upon the value of one or more underlying securities, interest rates or any agreed upon pricing index. Derivatives cover a wide assortment of financial contracts, including forward contracts, options and swaps.

DIF—Depositors Insurance Fund.

Economic Value of Equity ("EVE")—The present value of expected cash inflows from existing assets, minus the present value of expected cash outflows from existing liabilities, plus the expected cash inflows and outflows from existing derivatives and forward commitments. This calculation is performed for E*TRADE Bank.

Enterprise interest-bearing liabilities—Liabilities such as customer deposits, repurchase agreements, FHLB advances and other borrowings, certain customer credit balances and securities loaned programs on which the Company pays interest; excludes customer money market balances held by third parties.

Enterprise interest-earning assets—Assets such as loans, available-for-sale securities, held-to-maturity securities, margin receivables, securities borrowed balances and cash and investments required to be segregated under regulatory guidelines that earn interest for the Company.

Enterprise net interest income—The taxable equivalent basis net operating interest income excluding corporate interest income and corporate interest expense and interest earned on customer cash held by third parties.

Enterprise net interest margin—The enterprise net operating interest income divided by total enterprise interest-earning assets.

Enterprise net interest spread—The taxable equivalent rate earned on average enterprise interest-earning assets less the rate paid on average enterprise interest-bearing liabilities, excluding corporate interest-earning assets and liabilities and customer cash held by third parties.

ESDA—Extended insurance sweep deposit accounts.

Exchange-traded funds ("ETFs")—A fund that invests in a group of securities and trades like an individual stock on an exchange.

Fair value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hedge—A derivative instrument designated in a hedging relationship that mitigates exposure to changes in the fair value of a recognized asset or liability or a firm commitment.

Fannie Mae—Federal National Mortgage Association.

FASB—Financial Accounting Standards Board.

FDIC—Federal Deposit Insurance Corporation.

Federal Reserve—Board of Governors of the Federal Reserve System.

FHLB—Federal Home Loan Bank.

FICO—Fair Isaac Credit Organization.

FINRA—Financial Industry Regulatory Authority.

Fixed charge coverage ratio—Net income before taxes, depreciation and amortization and corporate interest expense divided by corporate interest expense. This ratio indicates the Company's ability to satisfy fixed financing expenses.

Forex—A type of trade that involves buying one currency while simultaneously selling another. Currencies are traded in pairs consisting of a "base currency" and a "quote currency."

Freddie Mac—Federal Home Loan Mortgage Corporation.

Generally Accepted Accounting Principles ("GAAP")—Accounting principles generally accepted in the United States of America.

Ginnie Mae—Government National Mortgage Association.

Gross loans receivable—Includes unpaid principal balances and premiums (discounts).

Interest rate cap—An option contract that puts an upper limit on a floating exchange rate. The writer of the cap has to pay the holder of the cap the difference between the floating rate and the upper limit when that upper limit is breached. There is usually a premium paid by the buyer of such a contract.

Interest rate floor—An option contract that puts a lower limit on a floating exchange rate. The writer of the floor has to pay the holder of the floor the difference between the floating rate and the lower limit when that lower limit is breached. There is usually a premium paid by the buyer of such a contract.

Interest rate swaps—Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

LCR—Liquidity Coverage Ratio.

LIBOR—London Interbank Offered Rate. LIBOR is the interest rate at which banks borrow funds from other banks in the London wholesale money market (or interbank market).

LTV—Loan-to-value.

NASDAQ—National Association of Securities Dealers Automated Quotations.

Net new brokerage assets—The total inflows to all new and existing brokerage customer accounts less total outflows from all closed and existing brokerage customer accounts, excluding the effects of market movements in the value of brokerage customer assets.

NFA—National Futures Association.

NOLs—Net operating losses.

Nonperforming assets—Assets that do not earn income, including those originally acquired to earn income (nonperforming loans) and those not intended to earn income (real estate owned). Loans are classified as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien.

Notional amount—The specified dollar amount underlying a derivative on which the calculated payments are based.

OCC—Office of the Comptroller of the Currency.

Options—Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a period or at a specified date in the future.

OTTI—Other-than-temporary impairment.

OTS—Office of Thrift Supervision.

PII—Personally Identifiable Information.

Real estate owned and other repossessed assets—Ownership or physical possession of real property by the Company, generally acquired as a result of foreclosure or repossession.

Recovery—Cash proceeds received on a loan that had been previously charged off.

Repurchase agreement—An agreement giving the seller of an asset the right or obligation to buy back the same or similar securities at a specified price on a given date. These agreements are generally collateralized by mortgage-backed or investment-grade securities.

Return on average total assets—Annualized net income divided by average assets.

Return on average total shareholders' equity—Annualized net income divided by average shareholders' equity.

Risk-weighted assets—Primarily computed by the assignment of specific risk-weightings assigned by the regulators to assets and off-balance sheet instruments for capital adequacy calculations.

S&P—Standard & Poor's.

SEC—U.S. Securities and Exchange Commission.

Special mention loans—Loans where a borrower's current credit history casts doubt on their ability to repay a loan. Loans are classified as special mention when loans are between 30 and 89 days past due.

Sweep deposit accounts—Accounts with the functionality to transfer customer deposit balances to and from a FDIC insured account at the banking subsidiaries.

Taxable equivalent interest adjustment—The operating interest income earned on certain assets is completely or partially exempt from federal and/or state income tax. These tax-exempt instruments typically yield lower returns than a taxable investment. To provide more meaningful comparison of yields and margins for all interest-earning assets, the interest income earned on tax exempt assets is increased to make it fully equivalent to interest income on other taxable investments. This adjustment is done for the analytic purposes in the net enterprise interest income/spread calculation and is not made on the consolidated statement of income, as that is not permitted under GAAP.

Tier 1 capital—Adjusted equity capital used in the calculation of capital adequacy ratios. Tier 1 capital equals: total shareholders' equity, plus/(less) unrealized losses (gains) on available-for-sale securities and cash flow hedges and qualifying restricted core capital elements, less disallowed servicing and deferred tax assets, goodwill and certain other intangible assets.

Troubled Debt Restructuring ("TDR")—A loan modification that involves granting an economic concession to a borrower who is experiencing financial difficulty, and loans that have been charged-off due to bankruptcy notification.

Wholesale borrowings—Borrowings that consist of securities sold under agreements to repurchase and FHLB advances and other borrowings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about market risk disclosure includes forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including, but not limited to, those set forth in Item 1A. Risk Factors in this report.

Interest Rate Risk

Our exposure to interest rate risk is related primarily to interest-earning assets and interest-bearing liabilities, all of which are held for non-trading purposes. The management of interest rate risk is essential to profitability. The primary objective of the management of interest rate risk is to control exposure to interest rates within the Board-approved limits, as outlined in the scenario analysis below, and with limited exposure to earnings volatility resulting from interest rate fluctuations. Our general strategies to manage interest rate risk include balancing variable-rate and fixed-rate assets and liabilities and utilizing derivatives in a way that reduces overall exposure to changes in interest rates. Exposure to interest rate risk requires management to make complex assumptions regarding maturities, market interest rates and customer behavior. Changes in interest rates, including the following, could impact interest income and expense:

- Interest-earning assets and interest-bearing liabilities may re-price at different times or by different amounts creating a mismatch.
- The yield curve may steepen, flatten or change shape affecting the spread between short- and long-term rates. Widening or narrowing spreads could impact net interest income.
- Market interest rates may influence prepayments resulting in maturity mismatches. In addition, prepayments could impact yields as premium and discounts amortize.

Exposure to interest rate risk is dependent upon the distribution and composition of interest-earning assets, interest-bearing liabilities and derivatives. The differing risk characteristics of each product are managed to mitigate our exposure to interest rate fluctuations. At December 31, 2014, 91% of our total assets were enterprise interest-earning assets.

At December 31, 2014, approximately 59% of total assets were residential real estate loans and available-for-sale and held-to-maturity mortgage-backed securities. The values of these assets are sensitive to changes in interest rates, as well as expected prepayment levels. As interest rates increase, fixed rate residential mortgages and mortgage-backed securities tend to exhibit lower prepayments. The inverse is true in a falling rate environment.

When real estate loans prepay, unamortized premiums and/or discounts are recognized immediately in operating interest income. Depending on the timing of the prepayment, these adjustments to operating income may impact anticipated yields. The ALCO reviews estimates of the impact of changing market rates on prepayments. This information is incorporated into our interest rate risk management strategy.

Our liability structure consists of two central sources of funding: deposits and wholesale borrowings. Cash provided to us through deposits is the primary source of funding. Key deposit products include sweep accounts, complete savings accounts and other money market and savings accounts. Wholesale borrowings include securities sold under agreements to repurchase and FHLB advances. Other sources of funding include customer payables, which is customer cash contained within our broker-dealers, and corporate debt issued by the parent company.

Deposits and customer payables tend to be less rate-sensitive than wholesale borrowings. Agreements to repurchase securities and the majority of FHLB advances re-price as agreements reset. Sweep accounts, complete savings accounts and other money market and savings accounts re-price at management’s discretion. Corporate debt has fixed rates.

Derivative Instruments

We use derivative instruments to help manage interest rate risk. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties based on a contractual underlying notional amount, but do not involve the exchange of the underlying notional amounts. Option products are utilized primarily to decrease the market value changes resulting from the prepayment dynamics of the mortgage portfolio, as well as to protect against increases in funding costs. The types of options employed include Cap Options ("Caps"), "Payor Swaptions" and "Receiver Swaptions." Caps mitigate the market risk associated with increases in interest rates. Similarly, Payor and Receiver Swaptions mitigate the market risk associated with the respective increases and decreases in interest rates. See derivative instruments discussion in Note 8—Accounting for Derivative Instruments and Hedging Activities in Item 8. Financial Statements and Supplementary Data.

Scenario Analysis

Scenario analysis is an advanced approach to estimating interest rate risk exposure. Under the Economic Value of Equity ("EVE") approach, the present value of all existing interest-earning assets, interest-bearing liabilities, derivatives and forward commitments are estimated and then combined to produce an EVE figure. The approach values only the current balance sheet in which the most significant assumptions are the prepayment rates of the loan portfolio and mortgage-backed securities and the repricing of deposits. This approach does not incorporate assumptions related to business growth, or liquidation and re-investment of instruments. This approach provides an indicator of future earnings and capital levels because changes in EVE indicate the anticipated change in the value of future cash flows. The sensitivity of this value to changes in interest rates is then determined by applying alternative interest rate scenarios, which include, but are not limited to, instantaneous parallel shifts up 100, 200 and 300 basis points and down 100 basis points. The change in EVE amounts fluctuate based on the parallel shifts in interest rates primarily due to the change in timing of cash flows in the Company’s residential loan and mortgage-backed securities portfolios. Expected prepayment rates on residential mortgage loans and mortgage-backed securities increase as interest rates decline. In a rising interest rate environment, expected prepayment rates decrease.

The EVE method is used at the E*TRADE Bank level and not for the Company. The ALCO monitors E*TRADE Bank’s interest rate risk position. E*TRADE Bank had nearly 100% of enterprise interest-earning assets at both December 31, 2014 and 2013 and held 99% of enterprise interest-bearing liabilities at both December 31, 2014 and 2013. The sensitivity of EVE at December 31, 2014 and 2013 and the limits established by E*TRADE Bank’s Board of Directors are listed below (dollars in millions):

	Change in EVE					
	December 31, 2014			December 31, 2013		
Parallel Change in Interest Rates (basis points)(1)	Amount	Percentage(2)	Board Limit	Amount	Percentage(2)	Board Limit
+300	$ (626)	(11.6)%	(25)%	$ (573)	(12.2)%	(25)%
+200	$ (353)	(6.6)%	(15)%	$ (355)	(7.6)%	(15)%
+100	$ (127)	(2.4)%	(7)%	$ (150)	(3.2)%	(7)%
-100	$ (21)	(0.4)%	(7)%	$ (39)	(0.8)%	(7)%

(1) Due to historically low interest rates for all yield curve points, the minus 200 and 300 basis points scenarios are not produced for the years ended December 31, 2014 and 2013.

(2) The percentage change represents the amount of change in EVE divided by the base EVE as calculated in the current interest rate environment.

We actively manage interest rate risk positions. As interest rates change, we will adjust our strategy and mix of assets, liabilities and derivatives to optimize our position. For example, a 100 basis points increase in rates may not result in a change in value as indicated above. The Company compares the parallel shift in interest rate changes in EVE to the established board limits in order to assess the Company’s interest rate risk on a monthly basis. In the event that the percentage change in EVE exceeds the board limits, E*TRADE Bank’s Chief Risk Officer, Chief Financial Officer and Treasurer must all be promptly notified in writing and decide upon a plan of remediation. In addition, E*TRADE Bank’s Board of Directors must be promptly notified of the exception and the planned resolution.

Market Risk

Equity Securities Risk

We are indirectly exposed to equity securities risk in connection with securities collateralizing margin receivables to customers, and risk related to our securities lending and borrowing activities. We manage risk on margin lending by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. We monitor required margin levels daily and require our customers to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor customer accounts to detect excessive concentration, large orders or positions, and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting, as defined in Rules 13a-15(f) promulgated under the Securities Exchange Act of 1934, is a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of Company’s management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework (2013)." Based on this assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2014 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

E*TRADE Financial Corporation’s Independent Registered Public Accounting Firm, Deloitte & Touche LLP, has issued an audit report regarding on the Company’s internal control over financial reporting, which appears on the next page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
E*TRADE Financial Corporation
New York, New York

We have audited the internal control over financial reporting of E*TRADE Financial Corporation and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 24, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 24, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
E*TRADE Financial Corporation
New York, New York

We have audited the accompanying consolidated balance sheets of E*TRADE Financial Corporation and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of E*TRADE Financial Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 24, 2015

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (LOSS)
(In millions, except share data and per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenue:			
Operating interest income	$ 1,293	$ 1,220	$ 1,371
Operating interest expense	(205)	(238)	(286)
Net operating interest income	1,088	982	1,085
Commissions	456	420	378
Fees and service charges	186	155	122
Principal transactions	10	73	93
Gains on loans and securities, net	36	61	201
Other-than-temporary impairment ("OTTI")	—	(1)	(20)
Less: noncredit portion of OTTI recognized into (out of) other comprehensive income (loss) (before tax)	—	(2)	3
Net impairment	—	(3)	(17)
Other revenues	38	35	38
Total non-interest income	726	741	815
Total net revenue	1,814	1,723	1,900
Provision for loan losses	36	143	355
Operating expense:			
Compensation and benefits	412	363	353
Advertising and market development	120	108	139
Clearing and servicing	94	124	129
FDIC insurance premiums	79	104	117
Professional services	112	85	86
Occupancy and equipment	79	73	74
Communications	71	69	73
Depreciation and amortization	78	89	91
Amortization of other intangibles	22	24	25
Impairment of goodwill	—	142	—
Facility restructuring and other exit activities	8	28	8
Other operating expenses	70	66	67
Total operating expense	1,145	1,275	1,162
Income before other income (expense) and income tax expense (benefit)	633	305	383
Other income (expense):			
Corporate interest expense	(113)	(114)	(180)
Losses on early extinguishment of debt	(71)	—	(335)
Equity in income of investments and other	3	4	1
Total other income (expense)	(181)	(110)	(514)
Income (loss) before income tax expense (benefit)	452	195	(131)
Income tax expense (benefit)	159	109	(18)
Net income (loss)	$ 293	$ 86	$ (113)
Basic earnings (loss) per share	$ 1.02	$ 0.30	$ (0.39)
Diluted earnings (loss) per share	$ 1.00	$ 0.29	$ (0.39)
Shares used in computation of per share data:			
Basic (in thousands)	288,705	286,991	285,748
Diluted (in thousands)	294,103	292,589	285,748

See accompanying notes to consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	$ 293	$ 86	$ (113)
Other comprehensive income (loss)			
Available-for-sale securities:			
OTTI, net(1)	—	—	12
Noncredit portion of OTTI reclassification (into) out of other comprehensive income (loss), net(2)	—	1	(2)
Unrealized gains (losses), net(3)	193	(261)	187
Reclassification into earnings, net(4)	(26)	(37)	(128)
Net change from available-for-sale securities	167	(297)	69
Cash flow hedging instruments:			
Unrealized gains (losses), net(5)	(39)	67	(72)
Reclassification into earnings, net(6)	76	87	78
Net change from cash flow hedging instruments	37	154	6
Foreign currency translation gains, net	—	—	2
Other comprehensive income (loss)	204	(143)	77
Comprehensive income (loss)	$ 497	$ (57)	$ (36)

(1) Amounts are net of benefit from income taxes of $0, less than $1 million and $8 million for the years ended December 31, 2014, 2013 and 2012, respectively.
(2) Amounts are net of benefit from income taxes of $0, less than $1 million and $1 million for the years ended December 31, 2014, 2013 and 2012, respectively.
(3) Amounts are net of provision for income taxes of $117 million for the year ended December 31, 2014, net of benefit from income taxes of $156 million for the year ended December 31, 2013, and net of provision for income taxes of $112 million for the year ended December 31, 2012.
(4) Amounts are net of provision for income taxes of $16 million, $23 million and $79 million for the years ended December 31, 2014, 2013 and 2012, respectively.
(5) Amounts are net of benefit from income taxes of $29 million for the year ended December 31, 2014, net of provision for income taxes of $33 million for the year ended December 31, 2013, and net of benefit from income taxes of $41 million for the year ended December 31, 2012.
(6) Amounts are net of benefit from income taxes of $49 million, $52 million and $52 million for the years ended December 31, 2014, 2013 and 2012, respectively.

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(In millions, except share data)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and equivalents	$ 1,783	$ 1,838
Cash required to be segregated under federal or other regulations	555	1,066
Available-for-sale securities	12,388	13,592
Held-to-maturity securities (fair value of $12,476 and $10,092 at December 31, 2014 and 2013, respectively)	12,248	10,181
Margin receivables	7,675	6,353
Loans receivable, net (net of allowance for loan losses of $404 and $453 at December 31, 2014 and 2013, respectively)	5,979	8,123
Investment in FHLB stock	88	61
Property and equipment, net	245	237
Goodwill	1,792	1,792
Other intangibles, net	194	216
Other assets	2,583	2,821
Total assets	$ 45,530	$ 46,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 24,890	$ 25,971
Securities sold under agreements to repurchase	3,672	4,543
Customer payables	6,455	6,310
FHLB advances and other borrowings	1,299	1,279
Corporate debt	1,366	1,768
Other liabilities	2,473	1,553
Total liabilities	40,155	41,424
Commitments and contingencies (see Note 21)		
Shareholders' equity:		
Common stock, $0.01 par value, shares authorized: 400,000,000 at December 31, 2014 and 2013; shares issued and outstanding: 289,272,576 and 287,357,001 at December 31, 2014 and 2013, respectively	3	3
Additional paid-in-capital ("APIC")	7,350	7,328
Accumulated deficit	(1,729)	(2,022)
Accumulated other comprehensive loss	(249)	(453)
Total shareholders' equity	5,375	4,856
Total liabilities and shareholders' equity	$ 45,530	$ 46,280

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In millions)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2011	285	$ 3	$ 7,307	$ (1,995)	$ (387)	$ 4,928
Net loss	—	—	—	(113)	—	(113)
Other comprehensive income	—	—	—	—	77	77
Exercise of stock options and related tax effects	—	—	(5)	—	—	(5)
Issuance of restricted stock, net of forfeitures and retirements to pay taxes	1	—	(4)	—	—	(4)
Share-based compensation	—	—	21	—	—	21
Balance, December 31, 2012	286	$ 3	$ 7,319	$ (2,108)	$ (310)	$ 4,904
Net income	—	—	—	86	—	86
Other comprehensive loss	—	—	—	—	(143)	(143)
Exercise of stock options and related tax effects	—	—	(4)	—	—	(4)
Issuance of restricted stock, net of forfeitures and retirements to pay taxes	1	—	(7)	—	—	(7)
Share-based compensation	—	—	20	—	—	20
Balance, December 31, 2013	287	$ 3	$ 7,328	$ (2,022)	$ (453)	$ 4,856
Net income	—	—	—	293	—	293
Other comprehensive income	—	—	—	—	204	204
Conversion of convertible debentures	1	—	5	—	—	5
Exercise of stock options and related tax effects	—	—	6	—	—	6
Issuance of restricted stock, net of forfeitures and retirements to pay taxes	1	—	(13)	—	—	(13)
Share-based compensation	—	—	24	—	—	24
Balance at December 31, 2014	289	$ 3	$ 7,350	$ (1,729)	$ (249)	$ 5,375

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ 293	$ 86	$ (113)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for loan losses	36	143	355
Depreciation and amortization (including discount amortization and accretion)	331	395	409
Net impairment and gains on loans and securities, net	(36)	(58)	(183)
Impairment of goodwill	—	142	—
Equity in income of investments and other	(3)	(4)	(1)
Losses on early extinguishment of debt	6	—	135
Share-based compensation	24	20	21
Deferred taxes	155	107	(137)
Other	1	—	(1)
Net effect of changes in assets and liabilities:			
Decrease (increase) in cash required to be segregated under federal or other regulations	511	(689)	899
Increase in margin receivables	(1,322)	(549)	(978)
Increase (decrease) in customer payables	145	1,345	(626)
Proceeds from sales and repayments of loans held-for-sale	11	15	343
Originations of loans held-for-sale	—	—	(332)
Net increase in trading securities	—	—	(47)
(Increase) decrease in other assets	(156)	33	265
Increase (decrease) in other liabilities	705	131	(168)
Net cash provided by (used in) operating activities	701	1,117	(159)
Cash flows from investing activities:			
Purchases of available-for-sale securities	(1,564)	(7,042)	(10,049)
Proceeds from sales, maturities of and principal payments on available-for-sale securities	3,323	6,263	12,446
Purchases of held-to-maturity securities	(3,209)	(2,527)	(4,814)
Proceeds from maturities of and principal payments on held-to-maturity securities	1,144	1,828	1,308
Proceeds from sale of loans	813	—	—
Net decrease in loans receivable	1,273	1,724	1,766
Capital expenditures for property and equipment	(87)	(47)	(80)
Proceeds from sale of G1 Execution Services, Inc.	76	—	—
Cash transferred on sale of G1 Execution Services, Inc.	(9)	—	—
Proceeds from sale of real estate owned and repossessed assets	37	62	102
Net cash flow from derivatives hedging assets	(15)	19	(85)
Other	(69)	6	71
Net cash provided by investing activities	1,713	286	665

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)
(In millions)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from financing activities:			
Net (decrease) increase in deposits	$ (1,081)	$ (2,422)	$ 1,932
Net (decrease) increase in securities sold under agreements to repurchase	(871)	88	(561)
Advances from FHLB	730	2,180	2,930
Payments on advances from FHLB	(730)	(2,180)	(4,284)
Net proceeds from issuance of senior notes	540	—	1,305
Payments on senior and springing lien notes	(940)	—	(1,174)
Net cash flow from derivatives hedging liabilities	(170)	5	25
Other	53	2	(17)
Net cash (used in) provided by financing activities	(2,469)	(2,327)	156
(Decrease) increase in cash and equivalents	(55)	(924)	662
Cash and equivalents, beginning of period	1,838	2,762	2,100
Cash and equivalents, end of period	$ 1,783	$ 1,838	$ 2,762
Supplemental disclosures:			
Cash paid for interest	$ 318	$ 277	$ 592
Cash paid for income taxes, net of refunds	$ —	$ 2	$ 6
Non-cash investing and financing activities:			
Transfers of loans held-for-investment to loans held-for-sale	$ 795	$ 41	$ —
Transfers from loans to other real estate owned and repossessed assets	$ 53	$ 75	$ 128
Transfers from other real estate owned and repossessed assets to loans	$ 16	$ —	$ —
Conversion of convertible debentures to common stock	$ 5	$ —	$ —
Reclassification of market making business assets and liabilities to business held-for-sale	$ —	$ 79	$ —

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—E*TRADE Financial Corporation is a financial services company that provides brokerage and related products and services primarily to individual retail investors under the brand "E*TRADE Financial." The Company also provides investor-focused banking products, primarily sweep deposits, to retail investors. The Company's most significant subsidiaries are described below:

- E*TRADE Securities LLC is a registered broker-dealer and is the primary provider of brokerage products and services to the Company's customers;
- E*TRADE Clearing LLC is the clearing firm for the Company's brokerage subsidiaries and its main purpose is to clear and settle securities transactions for customers of E*TRADE Securities LLC;
- E*TRADE Bank is a federally chartered savings bank utilized by E*TRADE's broker-dealers to maximize the value of customer deposits. It provides the Company's customers with FDIC insurance on a certain amount of customer deposits and provides other banking products to its customers; and
- E*TRADE Financial Corporate Services is an operating subsidiary of the parent company and is the provider of software and services for managing equity compensation plans to our corporate customers.

On February 10, 2014, the Company completed the sale of its subsidiary G1 Execution Services, LLC, a registered broker-dealer and market maker, to an affiliate of Susquehanna International Group, LLP. The sale generated cash proceeds of $76 million.

As of December 31, 2014, the Company's two primary U.S. broker-dealers, E*TRADE Clearing LLC and E*TRADE Securities LLC, were operating subsidiaries of E*TRADE Bank. The Company recently received regulatory approval to move both E*TRADE Clearing LLC and E*TRADE Securities LLC out from under E*TRADE Bank. E*TRADE Securities LLC was moved out from under E*TRADE Bank in February 2015 and we plan to move E*TRADE Clearing LLC later in 2015.

Basis of Presentation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries as determined under the voting interest model. Entities in which the Company has the ability to exercise significant influence but in which the Company does not possess control are generally accounted for by the equity method. Entities in which the Company does not have the ability to exercise significant influence are generally carried at cost. However, investments in marketable equity securities where the Company does not have the ability to exercise significant influence over the entities are accounted for as available-for-sale securities. The Company also evaluates its initial and continuing involvement with certain entities to determine if the Company is required to consolidate the entities under the variable interest entity ("VIE") model. This evaluation is based on a qualitative assessment of whether the Company is the primary beneficiary of the VIE, which requires the Company to possess both: 1) the power to direct activities that most significantly impact the economic performance of the VIE; and 2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

The Company's consolidated financial statements are prepared in accordance with GAAP. Intercompany accounts and transactions are eliminated in consolidation. Certain prior period items in these consolidated financial statements have been reclassified to conform to the current period presentation. These consolidated financial statements reflect all adjustments, which are all normal and recurring in nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented.

The Company reports corporate interest expense separately from operating interest expense. The Company believes reporting these items separately provides a clearer picture of the financial performance of the Company's operations than would a presentation that combined these two items. Operating interest expense is generated from the operations of the Company. Corporate debt, which is the primary source of corporate interest expense, is related to prior recapitalization transactions and acquisitions.

Similarly, the Company reports gains on sales of investments, net separately from gains on loans and securities, net. The Company believes reporting these two items separately provides a clearer picture of the financial performance of the Company's operations than would a presentation that combined these two items. Gains on loans and securities, net are the result of activities in the Company's operations, namely its balance sheet management segment. Gains on sales of investments, net relate to investments of the Company at the corporate level and are not related to the ongoing business of the Company's operating subsidiaries. Gains on sales of investments, net are reported in the equity in income of investments and other line item on the consolidated statement of income (loss).

Related Parties—Joseph M. Velli, Chairman and CEO of ConvergEx Group, served on the Board of Directors from January 2010 to October 1, 2014. During this period, the Company used ConvergEx Group for clearing and transfer agent services. Payments for these services represented less than 1% of the Company's total operating expenses for each of the years ended December 31, 2014, 2013 and 2012.

Use of Estimates—Preparing the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from management's estimates. Certain significant accounting policies are critical because they are based on estimates and assumptions that require complex and subjective judgments by management. Changes in these estimates or assumptions could materially impact the Company's financial condition and results of operations. Material estimates in which management believes changes could reasonably occur include: allowance for loan losses; valuation of goodwill and other intangible assets; estimates of effective tax rates, deferred taxes and valuation allowance; classification and valuation of certain investments; accounting for derivative instruments; and fair value measurements.

Financial Statement Descriptions and Related Accounting Policies—Below are descriptions and accounting policies for certain of the Company's financial statement categories:

Cash and Equivalents—The Company considers all highly liquid investments with original or remaining maturities of three months or less at the time of purchase that are not required to be segregated under federal or other regulations to be cash and equivalents. Cash and equivalents included $0.9 billion and $1.0 billion at December 31, 2014 and 2013, respectively, of overnight cash deposits, a portion of which the Company is required to maintain with the Federal Reserve Bank.

Cash Required to be Segregated Under Federal or Other Regulations—Certain cash balances that are required to be segregated for the exclusive benefit of the Company's brokerage customers are included in the cash required to be segregated under federal or other regulations line item.

Available-for-Sale Securities—Available-for-sale securities consist primarily of debt securities and also include equity securities. Securities classified as available-for-sale are carried at fair value, with the unrealized gains and losses, after any applicable hedge accounting adjustments, reflected as a component of accumulated other comprehensive loss, net of tax. Realized and unrealized gains or losses on available-for-sale debt and equity securities are computed using the specific identification method. Interest earned on available-for-sale debt and equity securities is included in operating interest income. Amortization or accretion of premiums and discounts on available-for-sale debt securities are also recognized in operating interest income using the effective interest method over the contractual life of the security. Realized gains and losses on available-for-sale debt and equity securities, other than OTTI, are included in the gains on loans and securities, net line item. Available-for-sale securities that have an unrealized loss (impaired securities) are evaluated for OTTI at each balance sheet date.

Held-to-Maturity Securities—Held-to-maturity securities consist of debt securities, primarily residential mortgage-backed securities and agency debt securities. Held-to-maturity securities are carried at amortized cost based on the Company's intent and ability to hold these securities to maturity. Interest earned on held-to-maturity debt securities is included in operating interest income. Amortization or accretion of premiums and discounts are also recognized in operating interest income using the effective interest method over the contractual life of the security. Held-to-maturity securities that have an unrecognized loss (impaired securities) are evaluated for OTTI at each balance sheet date in a manner consistent with available-for-sale debt securities.

Margin Receivables—Margin receivables represent credit extended to customers to finance their purchases of securities by borrowing against securities the customers own. Securities owned by customers are held as collateral for amounts due on the margin receivables, the value of which is not reflected in the consolidated balance sheet. The Company is permitted to sell or re-pledge these securities held as collateral and use the securities to enter into securities lending transactions, to collateralize borrowings or for delivery to counterparties to cover customer short positions. The fair value of securities that the Company received as collateral in connection with margin receivables and securities borrowing activities, where the Company is permitted to sell or re-pledge the securities, was approximately $10.8 billion and $9.1 billion at December 31, 2014 and 2013, respectively. Of this amount, $2.9 billion and $1.9 billion had been pledged or sold in connection with securities loans, bank borrowings and deposits with clearing organizations at December 31, 2014 and 2013, respectively.

Loans Receivable, Net—Loans receivable, net consists of real estate and consumer loans that management has the intent and ability to hold for the foreseeable future or until maturity, also known as loans held-for-investment. Loans held-for-investment are carried at amortized cost adjusted for unamortized premiums or discounts on purchased loans, deferred fees or costs on originated loans, net charge-offs, and the allowance for loan losses. Premiums or discounts on purchased loans and deferred fees or costs on originated loans are recognized in operating interest income using the effective interest method over the contractual life of the loans and are adjusted for actual prepayments. The Company's classes of loans are one- to four-family, home equity and consumer and other loans.

Impaired Loans—The Company considers a loan to be impaired when it meets the definition of a TDR. Impaired loans exclude smaller-balance homogeneous one- to four-family, home equity and consumer and other loans that have not been modified as TDRs and are collectively evaluated for impairment.

TDRs—Loan modifications completed under the Company's loss mitigation programs in which economic concessions were granted to borrowers experiencing financial difficulty are considered TDRs. TDRs also include loans that have been charged-off based on the estimated current value of the underlying property less estimated selling costs due to bankruptcy notification even if the loan has not been modified under the Company's programs. Upon being classified as a TDR, such loan is categorized as an impaired loan and is considered impaired until maturity regardless of whether the borrower performs under the terms of the loan. The Company also processes minor modifications on a number of loans through traditional collections actions taken in the normal course of servicing delinquent accounts. Minor modifications resulting in an insignificant delay in the timing of payments are not considered economic concessions and therefore are not classified as TDRs.

Impairment on loan modifications is measured on an individual loan level basis, generally using a discounted cash flow model. When certain characteristics of the modified loan cast substantial doubt on the borrower's ability to repay the loan, the Company identifies the loan as collateral dependent and charges-off the amount of the modified loan balance in excess of the estimated current value of the underlying property less estimated selling costs. Collateral dependent TDRs are identified based on the terms of the modification, which includes assigning a higher level of risk to loans in which the LTV or CLTV is greater than 110% or 125%, respectively, a borrower's credit score is less than 600 and certain types of modifications, such as interest-only payments. TDRs that are not identified as higher risk using this risk assessment process and for which impairment is measured using a discounted cash flow model, continue to be evaluated in the event that they become higher risk collateral dependent TDRs.

TDRs, excluding loans in bankruptcy, are classified as nonperforming loans at the time of modification. Such TDRs return to accrual status after six consecutive payments are made in accordance with the modified terms. Accruing TDRs that subsequently become delinquent will immediately return to nonaccrual status. Bankruptcy loans are classified as nonperforming loans within 60 days of bankruptcy notification and remain on nonaccrual status regardless of the payment history.

Nonperforming Loans—The Company classifies loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien. Interest previously accrued, but not collected, is reversed against current income when a loan is placed on nonaccrual status. Interest payments received on nonperforming loans are recognized on a cash basis in operating interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal. The recognition of deferred fees or costs on originated loans and premiums or discounts on purchased loans in operating interest income is discontinued for nonperforming loans. Nonperforming loans, excluding TDRs, loans in bankruptcy and certain junior liens that have a delinquent senior lien, return to accrual status when the loan becomes less than 90 days past due. Loans modified as TDRs return to accrual status after six consecutive payments have been made in accordance with the modified terms. All bankruptcy loans remain on nonaccrual status regardless of the payment history. Certain junior liens that have a delinquent senior lien remain on nonaccrual status until certain performance criteria are met.

Allowance for Loan Losses—The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses is typically equal to management's forecast of loan losses in the twelve months following the balance sheet date as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs.

The Company's segments are one- to four-family, home equity and consumer and other. The estimate of the allowance for loan losses is based on a variety of quantitative and qualitative factors, including:

- the composition and quality of the portfolio;
- delinquency levels and trends;
- current and historical charge-off and loss experience;
- the Company's historical loss mitigation experience;
- the condition of the real estate market and geographic concentrations within the loan portfolio;
- the interest rate climate;
- the overall availability of housing credit; and
- general economic conditions.

For loans that are not TDRs, the Company established a general allowance. The one- to four-family and home equity loan portfolios represented 48% and 45%, respectively, of total loans receivable as of December 31, 2014. The one- to four-family and home equity loan portfolios are separated into risk segments based on key risk factors, which include but are not limited to loan type, delinquency history, documentation type, LTV/CLTV ratio and borrowers' credit scores. For home equity loans in the second lien position, the original balance of the first lien loan at origination date and updated valuations on the property underlying the loan are used to calculate CLTV. Both current CLTV and FICO scores are among the factors utilized to categorize the risk associated with mortgage loans and assign a probability assumption of future default. The Company utilizes historical mortgage loan performance data to develop the forecast of delinquency and default for these risk segments.

The general allowance for loan losses also includes a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors the Company believes may impact the level of credit losses. The Company utilizes a qualitative factor framework whereby, on a quarterly basis, management assesses the risk associated with three main factors. These factors are: external factors, such as changes in the macroeconomic, legal and regulatory environment; internal factors, such as procedural changes and reliance on third parties; and portfolio specific factors, such as the impact on borrowers' monthly payments from one- to four-family loans converting from interest only to amortizing. The uncertainty related to these factors may expand over time, temporarily increasing the qualitative component in advance of the more precise identification of these probable losses being captured within the general allowance. The total qualitative component was $37 million and $62 million as of December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, we enhanced our quantitative allowance methodology to identify higher risk home equity lines of credit and extend the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on a subset of these higher risk loans. These enhancements drove the migration of estimated losses previously captured on these loans from the qualitative component to the quantitative component of the general allowance, and drove the majority of the provision for loan losses within the home equity portfolio during the year ended December 31, 2014. During the year ended December 31, 2013, the Company increased its default assumptions related to balloon loans and extended the period of management's forecasted loan losses captured within the general allowance to include the total probable loss on higher risk balloon loans. The overall impact of these refinements drove the substantial majority of provision for loan losses during the year ended December 31, 2013.

The consumer and other loan portfolio is separated into risk segments by product and delinquency status. The Company utilizes historical performance data and historical recovery rates on collateral liquidation to forecast delinquency and loss at the product level. The consumer and other loan portfolio represented 7% of total loans receivable as of December 31, 2014. The qualitative component for the consumer and other loan portfolio was $1 million and $4 million as of December 31, 2014 and 2013, respectively.

For modified loans accounted for as TDRs that are valued using the discounted cash flow model, the Company established a specific allowance. The specific allowance for TDRs factors in the historical default rate of an individual loan before being modified as a TDR in the discounted cash flow analysis in order to determine that specific loan's expected impairment. Specifically, a loan that has a more severe delinquency history prior to modification will have a higher future default rate in the discounted cash flow analysis than a loan that was not as severely delinquent. For both of the one- to four-family and home equity loan portfolio segments, the pre-modification delinquency status, the borrower's current credit score and other credit bureau attributes, in addition to each loan's individual default experience and credit characteristics, are incorporated into the calculation of the specific allowance. A specific allowance is established to the extent that the recorded investment exceeds the discounted cash flows of a TDR with a corresponding charge to provision for loan losses. The specific allowance for these individually impaired loans represents the forecasted losses over the estimated remaining life of the loan, including the economic concession to the borrower.

Loan losses are recognized when, based on management's estimates, it is probable that a loss has been incurred. The Company's charge-off policy for both one- to four-family and home equity loans is to assess the value of the property when the loan has been delinquent for 180 days or it is in bankruptcy, regardless of whether or not the property is in foreclosure, and charge-off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs. TDR loan modifications are charged-off when certain characteristics of the loan, including CLTV, borrower's credit and type of modification, cast substantial doubt on the borrower's ability to repay the loan. Closed-end consumer loans are charged-off when the loan has been delinquent for 120 days or when it is determined that collection is not probable.

Investment in FHLB stock—The Company is a member of, and owns capital stock in, the FHLB system. The FHLB provides the Company with reserve credit capacity and authorizes advances based on the security of pledged home mortgages and other assets (principally securities that are obligations of, or guaranteed by, the U.S. Government) provided the Company meets certain creditworthiness standards. FHLB advances, included in the FHLB advances and other borrowings line item, is a wholesale funding source of E*TRADE Bank. As a condition of its membership in the FHLB, the Company is required to maintain a FHLB stock investment. The Company accounts for its investment in FHLB stock as a cost method investment.

Property and Equipment, Net—Property and equipment are carried at cost and depreciated on a straight-line basis over their estimated useful lives, generally three to seven years. Leasehold improvements are depreciated over the lesser of their estimated useful lives or lease terms. Buildings are depreciated over the lesser of their estimated useful lives or thirty-five years. Land is carried at cost. An impairment loss is recognized if the carrying amount of the long-lived asset is not recoverable and exceeds its fair value.

On October 31, 2014, the Company executed a sale-leaseback transaction on its office located in Alpharetta, Georgia. The Company recorded the net sales proceeds of approximately $56 million as a financing obligation and the related assets continue to be included in the property and equipment, net line item on the consolidated balance sheet. For additional information on the sale-leaseback, see Note 9—Property and Equipment, Net.

The costs of internally developed software that qualify for capitalization are included in the property and equipment, net line item. For qualifying internal-use software costs, capitalization begins when the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The Company does not capitalize pilot projects and projects where it believes that future economic benefits are less than probable. Technology development costs incurred in the development and enhancement of software used in connection with services provided by the Company that do not otherwise qualify for capitalization treatment are expensed as incurred. Completed projects are carried at cost and are amortized on a straight-line basis over their estimated useful lives of four years.

Goodwill and Other Intangibles, Net—Goodwill is acquired through business combinations and represents the excess of the purchase price over the fair value of net tangible assets and identifiable intangible assets. The Company evaluates goodwill for impairment on an annual basis as of November 30 and in interim periods when events or changes indicate the carrying value may not be recoverable. The Company has the option of performing a qualitative assessment of goodwill for any of its reporting units to determine whether it is more likely than not that the fair value is less than the carrying value of a reporting unit. If it is more likely than not that the fair value exceeds the carrying value of the reporting unit, then no further testing is necessary; otherwise, the Company must perform a two-step quantitative assessment of goodwill. The Company may elect to bypass the qualitative assessment and proceed directly to performing a two-step quantitative assessment.

Other intangibles, net represents the excess of the purchase price over the fair value of net tangible assets acquired through the Company's business combinations. The Company currently does not have any intangible assets with indefinite lives. The Company evaluates other intangible assets with finite lives for impairment on an annual basis or when events or changes indicate the carrying value may not be recoverable. The Company also evaluates the remaining useful lives of intangible assets with finite lives each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

For additional information on goodwill and other intangibles, net, see Note 10—Goodwill and Other Intangibles, Net.

Real Estate Owned and Repossessed Assets—Real estate owned and repossessed assets are included in the other assets line item in the consolidated balance sheet. Real estate owned represents real estate acquired through foreclosure and also includes those properties acquired through a deed in lieu of foreclosure or similar legal agreement. Both real estate owned and repossessed assets are carried at the lower of carrying value or fair value, less estimated selling costs.

Equity and Cost Method Investments—The Company's equity and cost method investments are generally limited liability investments in partnerships, companies and other similar entities, including tax credit partnerships and community development entities, that are not required to be consolidated. Equity and cost method investments are reported in the other assets line item in the consolidated balance sheet. Under the equity method, the Company recognizes its share of the investee's net income or loss in the equity in income (loss) of investments and other line item in the consolidated statement of income (loss). Additionally, the Company recognizes a liability for all legally binding unfunded equity commitments to the investees in the other liabilities line item in the consolidated balance sheet.

The Company evaluates its equity and cost method investments for impairment when events or changes indicate the carrying value may not be recoverable. If the impairment is determined to be other-than-temporary, the Company will recognize an impairment loss in the equity in income (loss) of investments and other line item equal to the difference between the expected realizable value and the carrying value of the investment.

Income Taxes—Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement purposes than for tax purposes. Deferred tax asset or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect. Valuation allowances for deferred tax assets are established if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized. Income tax expense (benefit) includes (i) deferred tax expense (benefit), which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances, and (ii) current tax expense (benefit), which represents the amount of tax currently payable to or receivable from a taxing authority. Uncertain tax positions are only recognized to the extent it is more likely than not that the uncertain tax position will be sustained upon examination. For uncertain tax positions, tax benefit is recognized for cases in which it is more than fifty percent likely of being sustained on ultimate settlement. For additional information on income taxes, see Note 16—Income Taxes.

Securities Sold Under Agreements to Repurchase—Securities sold under agreements to repurchase the same or similar securities, also known as repurchase agreements, are collateralized by fixed- and variable-rate mortgage-backed securities or investment grade securities. Repurchase agreements are treated as secured borrowings for financial statement purposes and the obligations to repurchase securities sold are therefore reflected as liabilities in the consolidated balance sheet.

Customer Payables—Customer payables represent credit balances in customer accounts arising from deposits of funds and sales of securities and other funds pending completion of securities transactions. Customer payables primarily represent customer cash contained within the Company's broker-dealer subsidiaries. The Company pays interest on certain customer payables balances.

Comprehensive Income (Loss)—The Company's comprehensive income (loss) is composed of net income (loss), noncredit portion of OTTI on debt securities, unrealized gains (losses) on available-for-sale securities, the effective portion of the unrealized gains (losses) on derivatives in cash flow hedge relationships and foreign currency translation gains, net of reclassification adjustments and related tax.

Derivative Instruments and Hedging Activities—The Company enters into derivative transactions primarily to protect against interest rate risk on the value of certain assets, liabilities and future cash flows. Each derivative instrument is recorded on the consolidated balance sheet at fair value as a freestanding asset or liability. For financial statement purposes, the Company's policy is to not offset fair value amounts recognized for derivative instruments and fair value amounts related to collateral arrangements under master netting arrangements.

Accounting for derivatives differs significantly depending on whether a derivative is designated as a hedge based on the applicable accounting guidance and, if designated as a hedge, the type of hedge designation. Derivative instruments designated in hedging relationships that mitigate the exposure to the variability in expected future cash flows or other forecasted transactions are considered cash flow hedges. Derivative instruments in hedging relationships that mitigate exposure to changes in the fair value of assets or liabilities are considered fair value hedges. In order to qualify for hedge accounting, the Company formally documents at inception all relationships between hedging instruments and hedged items and the risk management objective and strategy for each hedge transaction. Cash flow and fair value hedge ineffectiveness is measured on a quarterly basis and is included in the gains on loans and securities, net line item in the consolidated statement of income (loss). Cash flows from derivative instruments in hedging relationships are classified in the same category on the consolidated statement of cash flows as the cash flows from the items being hedged. The Company also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. Gains and losses on derivatives that are not held as accounting hedges are recognized in the gains on loans and securities, net line item in the consolidated statement of income (loss). For additional information on derivative instruments and hedging activities, see Note 8—Accounting for Derivative Instruments and Hedging Activities.

Fair Value—Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value for its financial instruments and for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. In addition, the Company determines the fair value for nonfinancial assets and nonfinancial liabilities on a nonrecurring basis as required during impairment testing or by other accounting guidance. For additional information on fair value, see Note 4—Fair Value Disclosures.

Operating Interest Income—Operating interest income is recognized as earned through holding interest-earning assets, such as loans, available-for-sale securities, held-to-maturity securities, margin receivables, cash and equivalents, segregated cash, and securities lending activities. Operating interest income also includes the impact of the Company's derivative transactions related to interest-earning assets.

Operating Interest Expense—Operating interest expense is recognized as incurred through holding interest-bearing liabilities, such as deposits, customer payables, securities sold under agreements to repurchase, FHLB advances and other borrowings, and securities lending activities and other balances. Operating interest expense also includes the impact of the Company's derivative transactions related to interest-bearing liabilities.

Commissions—Commissions are derived from the Company's customers and are impacted by both trade types and trade mix. Commissions from securities transactions are recognized on a trade-date basis.

Fees and Service Charges—Fees and service charges consist of order flow revenue, mutual fund service fees, advisor management fees, foreign exchange revenue, reorganization fees and other fees and service charges. Order flow revenue is accrued in the same period in which the related securities transactions are completed or related services are rendered.

Principal Transactions—Principal transactions consisted of revenue from market making activities. The Company completed the sale of its market making business on February 10, 2014 and therefore no longer records revenue from principal transactions. For additional information on the market making business, see Note 2—Disposition.

Gains on Loans and Securities, Net—Gains on loans and securities, net includes gains or losses resulting from the sale of available-for-sale securities; gains or losses resulting from sales of loans; hedge ineffectiveness; and gains or losses on derivative instruments that are not accounted for as hedging instruments. Gains or losses resulting from the sale of available-for-sale securities are recognized at the trade-date, based on the difference between the anticipated proceeds and the amortized cost of the specific securities sold.

OTTI—The Company considers OTTI for an available-for-sale or held-to-maturity debt security to have occurred if one of the following conditions are met: the Company intends to sell the impaired debt security; it is more likely than not that the Company will be required to sell the impaired debt security before recovery of the security's amortized cost basis; or the Company does not expect to recover the entire amortized cost basis of the security. The Company's evaluation of whether it intends to sell an impaired debt security considers whether management has decided to sell the security as of the balance sheet date. The Company's evaluation of whether it is more likely than not that the Company will be required to sell an impaired debt security before recovery of the security's amortized cost basis considers the likelihood of sales that involve legal, regulatory or operational requirements. For impaired debt securities that the Company does not intend to sell and it is not more likely than not that the Company will be required to sell before recovery of the security's amortized cost basis, the Company uses both qualitative and quantitative valuation measures to evaluate whether the Company expects to recover the entire amortized cost basis of the security. The Company considers all available information relevant to the collectability of the security, including credit enhancements, security structure, vintage, credit ratings and other relevant collateral characteristics.

If the Company intends to sell an impaired debt security or if it is more likely than not that the Company will be required to sell the impaired debt security before recovery of the security's amortized cost basis, the Company will recognize OTTI in earnings equal to the entire difference between the security's amortized cost basis and the security's fair value. If the Company does not intend to sell the impaired debt security and it is not more likely than not that the Company will be required to sell the impaired debt security before recovery of its amortized cost basis but the Company does not expect to recover the entire amortized cost basis of the security, the Company will separate OTTI into two components: 1) the amount related to credit loss, recognized in earnings; and 2) the noncredit portion of OTTI, recognized through other comprehensive income (loss).

The Company considers OTTI for an available-for-sale equity security to have occurred if the decline in the security's fair value below its cost basis is deemed other than temporary based on evaluation of both qualitative and quantitative valuation measures. If the impairment of an available-for-sale equity security is determined to be other-than-temporary, the Company will recognize OTTI in earnings equal to the entire difference between the security's amortized cost basis and the security's fair value. If the Company intends to sell an impaired equity security and the Company does not expect to recover the entire cost basis of the security prior to the sale, the Company will recognize OTTI in the period the decision to sell is made.

Net Impairment—Net impairment includes OTTI net of the noncredit portion of OTTI on debt securities recognized through other comprehensive income (loss) before tax.

Other Revenues—Other revenues primarily consist of fees from software and services for managing equity compensation plans, which are recognized in accordance with applicable accounting guidance, including software revenue recognition accounting guidance. Other revenues also include revenue ancillary to the Company's customer transactions and income from the cash surrender value of BOLI.

Share-Based Payments—In 2005, the Company adopted and the stockholders approved the 2005 Stock Incentive Plan ("2005 Plan") to replace the 1996 Stock Incentive Plan ("1996 Plan") which provides for the grant of nonqualified or incentive stock options, restricted stock awards and restricted stock units to officers, directors, employees and consultants for the purchase of newly issued shares of the Company's common stock at a price determined by the Board at the date of the grant. The Company does not have a specific policy for issuing shares upon stock option exercises and share unit conversions; however, new shares are typically issued in connection with exercises and conversions. The Company intends to continue to issue new shares for future exercises and conversions.

Through 2011, the Company issued options to the Company's Board of Directors and to certain of the Company's officers and employees. Options are generally exercisable ratably over a two- to four-year period from the date the option is granted and expire within seven to ten years from the date of grant. Certain options provide for accelerated vesting upon a change in control. Exercise prices were generally equal to the fair value of the shares on the grant date. As of December 31, 2014, there were 0.7 million shares outstanding and less than $1 million of total unrecognized compensation expense related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of 0.1 year.

The Company issues restricted stock awards to the Company's Board of Directors and restricted stock units to certain of the Company's officers and employees. Each restricted stock unit can be converted into one share of the Company's common stock upon vesting. These restricted stock awards and units are issued at the fair value on the date of grant and vest ratably over the requisite service period, generally one year for restricted stock awards and three to four years for restricted stock units. As of December 31, 2014, there were 3.3 million awards and units outstanding and $31 million of total unrecognized compensation expense related to non-vested awards. This cost is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of restricted stock awards and restricted stock units vested was $34 million, $19 million and $10 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company recognized $24 million, $20 million and $21 million in compensation expense for its options, restricted stock awards and restricted stock units for the years ended December 31, 2014, 2013 and 2012, respectively.

Under the 2005 Plan, the remaining unissued authorized shares of the 1996 Plan, up to 4.2 million shares, were authorized for issuance. Additionally, any shares that had been awarded but remained unissued under the 1996 Plan that were subsequently canceled, would be authorized for issuance under the 2005 Plan, up to 3.9 million shares. In May 2009 and 2010, an additional 3.0 million and 12.5 million shares, respectively, were authorized for issuance under the 2005 Plan at the Company's annual meetings of stockholders in each of those respective years. As of December 31, 2014, 7.2 million shares were available for grant under the 2005 Plan.

The Company records share-based compensation expense in accordance with the stock compensation accounting guidance. The Company recognizes compensation expense at the grant date fair value of a share-based payment award over the requisite service period less estimated forfeitures. Share-based compensation expense is included in the compensation and benefits line item.

Advertising and Market Development—Advertising production costs are expensed when the initial advertisement is run.

Earnings (Loss) Per Share—Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company excludes from the calculation of diluted net income (loss) per share stock options, unvested restricted stock awards and units and shares related to convertible debentures that would have been anti-dilutive.

New Accounting and Disclosure Guidance—Below is the new accounting and disclosure guidance that relates to activities in which the Company is engaged.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB amended the presentation guidance on unrecognized tax benefits. The amended guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except under certain circumstances. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The unrecognized tax benefit should also be presented in the financial statements as a liability if the tax law of the applicable jurisdiction does not require the Company to use, and the Company does not intend to use, the deferred tax asset to settle any additional income taxes. The amended presentation guidance became effective for annual and interim periods beginning on January 1, 2014 for the Company and was applied prospectively to unrecognized tax benefits existing at that date. The adoption of the amended presentation guidance did not have a material impact on the Company's financial condition, results of operations or cash flows.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB amended the accounting guidance for investments in qualified affordable housing projects. The amended accounting guidance permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the consolidated statement of income (loss) as a component of income tax expense (benefit). The adoption of the amended accounting guidance on a retrospective basis on January 1, 2015 will not have a material impact on the Company's financial condition, results of operations or cash flows.

Reclassification of Residential Real Estate Collateralized Mortgage Loans upon Foreclosure

In January 2014, the FASB amended the accounting and disclosure guidance on reclassifications of residential real estate collateralized mortgage loans upon foreclosure. The amended guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amended disclosure guidance requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure. As early adoption was permitted, the Company early adopted the amended guidance on a modified retrospective basis as of January 1, 2014. The adoption of the amended accounting guidance did not have a material impact on the Company’s financial condition, results of operations or cash flows.

Presentation and Disclosure of Discontinued Operations

In April 2014, the FASB amended the presentation and disclosure guidance on disposal transactions. The amended guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The amended guidance became effective for all disposals or classifications as held for sale occurring in annual and interim periods beginning on January 1, 2015 for the Company. The adoption of the amended guidance did not have a material impact on the Company’s current financial condition, results of operations or cash flows; however, it may impact the reporting of future disposals if and when they occur.

Revenue Recognition on Contracts with Customers

In May 2014, the FASB amended the guidance on revenue recognition on contracts with customers. The new standard outlines a single comprehensive model for entities to apply in accounting for revenue arising from contracts with customers. The amended guidance will be effective for annual and interim periods beginning on January 1, 2017 for the Company and may be applied on either a full retrospective or modified retrospective basis. Early adoption is not permitted. While the Company is currently evaluating the impact of the new accounting guidance, the adoption of the amended guidance is not expected to have a material impact on the Company’s financial condition, results of operations or cash flows.

Accounting and Disclosures for Repurchase Agreements

In June 2014, the FASB amended the accounting and disclosure guidance on repurchase agreements. The amended guidance requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates accounting guidance on linked repurchase financing transactions, and expands the disclosure requirements related to transfers of financial assets accounted for as sales and as secured borrowings. The amended accounting guidance and the amended disclosure guidance for transfers of financial assets accounted for as sales became effective for annual and interim periods beginning on January 1, 2015 for the Company and will be applied using a cumulative-effect approach as of that date. The amended disclosure guidance for transfers of financial assets accounted for as secured borrowings will be effective for annual periods beginning on January 1, 2015 and interim periods beginning on April 1, 2015 for the Company. The adoption of the amended guidance will not have a material impact on the Company’s financial condition, results of operations or cash flows. The Company's disclosures will reflect the adoption of the amended disclosure guidance in the applicable reporting periods in 2015.

Classification of Government-Guaranteed Mortgage Loans upon Foreclosure

In August 2014, the FASB amended the accounting and disclosure guidance related to the classification of certain government-guaranteed mortgage loans upon foreclosure. The amended guidance requires entities to derecognize a mortgage loan and recognize a separate other receivable upon foreclosure if certain conditions are met. The separate other receivable is recorded based on the amount of principal and interest expected to be recovered under the guarantee. The amended guidance became effective for annual and interim periods beginning on January 1, 2015 for the Company and will be applied on a modified retrospective basis. The adoption of the amended guidance will not have a material impact on the Company’s financial condition, results of operations or cash flows.

Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB amended the guidance related to an entity's evaluations and disclosures of going concern uncertainties. The new guidance requires management to perform interim and annual assessments of the entity's ability to continue as a going concern within one year of the date the financial statements are issued, and to provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The amended guidance will be effective for the Company for annual periods beginning on January 1, 2016 and for interim periods beginning on January 1, 2017. Early adoption is permitted. The adoption of the amended guidance will not impact the Company's financial condition, results of operations or cash flows.

Consolidation

In February 2015, the FASB amended the guidance on consolidation of certain legal entities. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, and revises the consolidation analysis related to fee arrangements and related party relationships. The amended guidance will be effective for annual and interim periods beginning on January 1, 2016 for the Company and may be applied on either a full retrospective or modified retrospective basis. While the Company is currently evaluating the impact of the new accounting guidance, the adoption of the amended guidance is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

NOTE 2—DISPOSITION

On February 10, 2014, the Company completed the sale of its market making business, G1 Execution Services, LLC, to an affiliate of Susquehanna for cash proceeds of $76 million. The sale resulted in a gain of $4 million which was recorded in the facility restructuring and other exit activities line item on the consolidated statement of income (loss). The table below summarizes the carrying amounts of the major classes of assets and liabilities of the market making business at December 31, 2013 (dollars in millions):

	December 31, 2013[1]	
Assets:		
Cash and equivalents	$	11
Trading securities		105
Property and equipment, net		2
Other intangibles, net		21
Other assets		38
Total assets	$	177
Liabilities:		
Other liabilities	$	107
Total liabilities	$	107

[1]Assets and liabilities at December 31, 2013 were classified as held-for-sale and reflected in the other assets and other liabilities line items on the consolidated balance sheet respectively.

NOTE 3—OPERATING INTEREST INCOME AND OPERATING INTEREST EXPENSE

The following table shows the components of operating interest income and operating interest expense (dollars in millions):

	Year Ended December 31,		
	2014	2013	2012
Operating interest income:			
Loans	$ 297	$ 395	$ 496
Available-for-sale securities	288	279	360
Held-to-maturity securities	328	255	237
Margin receivables	264	224	216
Securities borrowed and other	116	67	62
Total operating interest income(1)	1,293	1,220	1,371
Operating interest expense:			
Securities sold under agreements to repurchase	(123)	(148)	(158)
FHLB advances and other borrowings	(65)	(68)	(93)
Deposits	(8)	(13)	(24)
Customer payables and other	(9)	(9)	(11)
Total operating interest expense(2)	(205)	(238)	(286)
Net operating interest income	$ 1,088	$ 982	$ 1,085

(1) Operating interest income reflects $(31) million, $(16) million, and $(10) million of expense on hedges that qualify for hedge accounting for the years ended December 31, 2014, 2013, and 2012, respectively.
(2) Operating interest expense reflects $132 million, $153 million, and $142 million of expense on hedges that qualify for hedge accounting for the years ended December 31, 2014, 2013, and 2012, respectively.

NOTE 4—FAIR VALUE DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company.
- Level 2—Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Unobservable inputs that are significant to the fair value of the assets or liabilities.

The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

Recurring Fair Value Measurement Techniques

Agency Debentures and U.S. Treasury Securities

The fair value measurements of agency debentures were classified as Level 2 of the fair value hierarchy as they were based on quoted market prices observable in the marketplace. The fair value measurements of U.S. Treasury securities, included in deposits with clearing organizations at December 31, 2013, were classified as Level 1 of the fair value hierarchy as they were based on quoted market prices in active markets. The Company did not hold any of these securities at December 31, 2014.

Residential Mortgage-backed Securities

The Company’s residential mortgage-backed securities portfolio primarily comprised agency mortgage-backed securities and CMOs. Agency mortgage-backed securities and CMOs are guaranteed by U.S. government sponsored enterprises and federal agencies. The weighted average coupon rates for the available-for-sale residential mortgage-backed securities at December 31, 2014 are shown in the following table:

	Weighted Average Coupon Rate
Agency mortgage-backed securities	3.10%
Agency CMOs	3.08%

The fair value of agency mortgage-backed securities was determined using a market approach with quoted market prices, recent market transactions and spread data for similar instruments. The fair value of agency CMOs was determined using market and income approaches with the Company’s own trading activities for identical or similar instruments. Agency mortgage-backed securities and CMOs were categorized in Level 2 of the fair value hierarchy.

Other Debt Securities

The fair value measurements of agency debt securities were determined using market and income approaches along with the Company’s own trading activities for identical or similar instruments and were categorized in Level 2 of the fair value hierarchy.

The Company’s municipal bonds are revenue bonds issued by state and other local government agencies. The valuation of corporate bonds is impacted by the credit worthiness of the corporate issuer. All of the Company’s municipal bonds and corporate bonds were rated investment grade at December 31, 2014. These securities were valued using a market approach with pricing service valuations corroborated by recent market transactions for identical or similar bonds. Municipal bonds and corporate bonds were categorized in Level 2 of the fair value hierarchy.

Publicly Traded Equity Securities

The fair value measurements of the Company's publicly traded equity securities were classified as Level 1 of the fair value hierarchy as they were based on quoted market prices in active markets.

Derivative Instruments

Interest rate swap and option contracts were valued with an income approach using pricing models that are commonly used by the financial services industry. The market observable inputs used in the pricing models include the swap curve, the volatility surface, and prime or overnight indexed swap basis from a financial data provider. The Company does not consider these models to involve significant judgment on the part of management, and the Company corroborated the fair value measurements with counterparty valuations. The Company’s derivative instruments were categorized in Level 2 of the fair value hierarchy. The consideration of credit risk, the Company’s or the counterparty’s, did not result in an adjustment to the valuation of its derivative instruments in the periods presented.

Securities Owned and Securities Sold, Not Yet Purchased

Securities transactions that were entered into by G1 Execution Services, LLC included trading securities classified as held-for-sale assets within other assets and securities sold, not yet purchased classified as held-for-sale liabilities in the Company’s fair value disclosures at December 31, 2013. The Company’s definition of actively traded was based on average daily volume and other market trading statistics. The majority of the Company's securities owned and securities sold, not yet purchased were categorized in Level 1 of the fair value hierarchy. The fair value of these securities was determined using listed or quoted market prices. The Company did not hold any of these securities at December 31, 2014. Refer to Note 2-Disposition for additional information on the sale of G1 Execution Services, LLC.

Nonrecurring Fair Value Measurement Techniques

Certain other assets are recorded at fair value on a nonrecurring basis: 1) one- to four-family and home equity loans in which the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs has been charged-off; and 2) real estate owned that is carried at the lower of the property's carrying value or fair value less estimated selling costs.

The Company evaluates and reviews assets that have been subject to fair value measurement requirements on a quarterly basis in accordance with policies and procedures that were designed to be in compliance with guidance from the Company's regulators. These policies and procedures govern the frequency of the review, the use of acceptable valuation methods, and the consideration of estimated selling costs.

Loans Receivable and Real Estate Owned

Loans that have been delinquent for 180 days or that are in bankruptcy and certain TDR loan modifications are charged-off based on the estimated current value of the underlying property less estimated selling costs. Property valuations for these one- to four-family and home equity loans are based on the most recent "as is" property valuation data available, which may include appraisals, broker price opinions, automated valuation models or updated values using home price indices. Subsequent to the recording of an initial fair value measurement, these loans continue to be measured at fair value on a nonrecurring basis, utilizing the estimated value of the underlying property less estimated selling costs. These property valuations are updated on a monthly, quarterly or semi-annual basis depending on the type of valuation initially used. If the value of the underlying property has declined, an additional charge-off is recorded. If the value of the underlying property has increased, previously charged-off amounts are not reversed. If the valuation data obtained is significantly different from the valuation previously received, the Company reviews additional property valuation data to corroborate or update the valuation.

Property valuations for real estate owned are based on the lowest value of the most recent property valuation data available, which may include appraisals, listing prices or approved offer prices. Nonrecurring fair value measurements on one- to four-family and home equity loans and real estate owned were classified as Level 3 of the fair value hierarchy as the majority of the valuations included Level 3 inputs that were significant to the fair value.

The following table presents additional information about significant unobservable inputs used in the valuation of assets measured at fair value on a nonrecurring basis that were categorized in Level 3 of the fair value hierarchy at December 31, 2014:

	Unobservable Inputs	Average	Range
Loans receivable:			
One- to four-family	Appraised value	$ 378,700	$37,000-$1,800,000
Home equity	Appraised value	$ 280,400	$9,000-$1,190,000
Real estate owned	Appraised value	$ 342,800	$5,000-$1,950,000

Goodwill

At the end of the second quarter of 2013, the Company decided to exit the market making business, and as a result evaluated the total goodwill allocated to the market making reporting unit for impairment. The Company valued the market making business by using a combination of expected present value of future cash flows of the business, a form of the income approach, and prices of comparable businesses, a form of the market approach, with significant unobservable inputs. The Company valued the market making reporting unit using the expected sale structure of the market making business. As a result of the evaluation, it was determined that the entire carrying amount of goodwill allocated to the market making reporting unit was impaired, and the Company recognized $142 million impairment of goodwill during the year ended December 31, 2013.

Recurring and Nonrecurring Fair Value Measurements

Assets and liabilities measured at fair value at December 31, 2014 and 2013 are summarized in the following tables (dollars in millions):

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2014:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency residential mortgage-backed securities and CMOs	$ —	$ 11,164	$ —	$ 11,164
Agency debentures	—	648	—	648
Agency debt securities	—	499	—	499
Municipal bonds	—	40	—	40
Corporate bonds	—	4	—	4
Total debt securities	—	12,355	—	12,355
Publicly traded equity securities	33	—	—	33
Total available-for-sale securities	33	12,355	—	12,388
Other assets:				
Derivative assets(1)	—	24	—	24
Total assets measured at fair value on a recurring basis(2)	$ 33	$ 12,379	$ —	$ 12,412
Liabilities				
Derivative liabilities(1)	$ —	$ 66	$ —	$ 66
Total liabilities measured at fair value on a recurring basis(2)	$ —	$ 66	$ —	$ 66
Nonrecurring fair value measurements:				
Loans receivable:				
One- to four-family	$ —	$ —	$ 46	$ 46
Home equity	—	—	32	32
Total loans receivable	—	—	78	78
Real estate owned	—	—	38	38
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ —	$ 116	$ 116

(1) All derivative assets and liabilities were interest rate contracts at December 31, 2014. Information related to derivative instruments is detailed in Note 8—Accounting for Derivative Instruments and Hedging Activities.

(2) Assets and liabilities measured at fair value on a recurring basis represented 27% and less than 1% of the Company's total assets and total liabilities, respectively, at December 31, 2014.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2014, and for which a fair value measurement was recorded during the period.

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	Level 1	Level 2	Level 3(1)	Total Fair Value
December 31, 2013:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Residential mortgage-backed securities:				
Agency mortgage-backed securities and CMOs	$ —	$ 12,236	$ —	$ 12,236
Non-agency CMOs	—	—	14	14
Total residential mortgage-backed securities	—	12,236	14	12,250
Agency debentures	—	466	—	466
Agency debt securities	—	831	—	831
Municipal bonds	—	40	—	40
Corporate bonds	—	5	—	5
Total debt securities	—	13,578	14	13,592
Total available-for-sale securities	—	13,578	14	13,592
Other assets:				
Derivative assets(2)	—	107	—	107
Deposits with clearing organizations(3)	53	—	—	53
Held-for-sale assets—trading securities(4)	104	1	—	105
Total other assets measured at fair value on a recurring basis	157	108	—	265
Total assets measured at fair value on a recurring basis(5)	$ 157	$ 13,686	$ 14	$ 13,857
Liabilities				
Derivative liabilities(2)	$ —	$ 169	$ —	$ 169
Held-for-sale liabilities—securities sold, not yet purchased(4)	94	1	—	95
Total liabilities measured at fair value on a recurring basis(5)	$ 94	$ 170	$ —	$ 264
Nonrecurring fair value measurements:				
Loans receivable:				
One- to four-family	$ —	$ —	$ 246	$ 246
Home equity	—	—	46	46
Total loans receivable(6)	—	—	292	292
Real estate owned(6)	—	—	47	47
Total assets measured at fair value on a nonrecurring basis(7)	$ —	$ —	$ 339	$ 339

(1) Instruments measured at fair value on a recurring basis categorized as Level 3 represented less than 1% of the Company's total assets and none of its total liabilities at December 31, 2013.

(2) All derivative assets and liabilities were interest rate contracts at December 31, 2013. Information related to derivative instruments is detailed in Note 8—Accounting for Derivative Instruments and Hedging Activities.

(3) Represents U.S. Treasury securities held by a broker-dealer subsidiary.

(4) Assets and liabilities of the market making business were reclassified as held-for-sale and are presented in the other assets and other liabilities line items, respectively, on the consolidated balance sheet at December 31, 2013. Information related to the classification is detailed in Note 2—Disposition.

(5) Assets and liabilities measured at fair value on a recurring basis represented 30% and 1% of the Company's total assets and total liabilities, respectively, at December 31, 2013.

(6) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2013, and for which a fair value measurement was recorded during the period.

(7) Goodwill allocated to the market making reporting unit with a carrying amount of $142 million was written down to zero during the year ended December 31, 2013 and categorized in Level 3 of the fair value hierarchy.

The following table presents the gains and losses associated with the assets measured at fair value on a nonrecurring basis during the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	December 31,		
	2014	2013	2012
One- to four-family	$ 10	$ 40	$ 193
Home equity	30	58	292
Total losses on loans receivable measured at fair value	$ 40	$ 98	$ 485
(Gains) losses on real estate owned measured at fair value	$ (2)	$ (1)	$ 12
Losses on goodwill measured at fair value	$ —	$ 142	$ —

Transfers Between Levels 1 and 2

For assets and liabilities measured at fair value on a recurring basis, the Company's transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period on a quarterly basis. The Company had no material transfers between Level 1 and 2 during the years ended December 31, 2014, 2013 and 2012.

Level 3 Rollforward for Recurring Fair Value Measurements

Level 3 assets include instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. While the Company's fair value estimates of Level 3 instruments utilized observable inputs where available, the valuation included significant management judgment in determining the relevance and reliability of market information considered.

The following tables present additional information about Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Available-for-sale Securities		
	Non-agency CMOs		
	December 31,		
	2014	2013	2012
Beginning of period	$ 14	$ 49	$ 97
Gains (losses) recognized in earnings[1]	6	(3)	(13)
Net gains recognized in other comprehensive income[2]	3	5	18
Sales	(23)	(35)	(68)
Settlements	—	(2)	(23)
Transfers in to Level 3[3][4]	—	—	211
Transfers out of Level 3[3][5]	—	—	(173)
End of period	$ —	$ 14	$ 49

(1) Gains and losses recognized in earnings are reported in the gains on loans and securities, net and net impairment line items on the consolidated statement of income (loss).
(2) Net gains recognized in other comprehensive income (loss) are reported in the net change from available-for-sale securities line item.
(3) The Company's transfers in and out of Level 3 are at the beginning of the reporting period on a quarterly basis.
(4) Non-agency CMOs were transferred in to Level 3 due to a lack of observable market data, resulting from a decrease in market activity for the securities.
(5) Non-agency CMOs were transferred out of Level 3 because observable market data became available for those securities.

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Fair Value of Financial Instruments Not Carried at Fair Value

The following table summarizes the carrying values, fair values and fair value hierarchy level classification of financial instruments that are not carried at fair value on the consolidated balance sheet at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 1,783	$ 1,783	$ —	$ —	$ 1,783
Cash required to be segregated under federal or other regulations	$ 555	$ 555	$ —	$ —	$ 555
Held-to-maturity securities:					
Agency mortgage-backed securities and CMOs	$ 9,793	$ —	$ 9,971	$ —	$ 9,971
Agency debentures	164	—	166	—	166
Agency debt securities	2,281	—	2,329	—	2,329
Other non-agency debt securities	10	—	—	10	10
Total held-to-maturity securities	$ 12,248	$ —	$ 12,466	$ 10	$ 12,476
Margin receivables	$ 7,675	$ —	$ 7,675	$ —	$ 7,675
Loans receivable, net:					
One- to four-family	$ 3,053	$ —	$ —	$ 2,742	$ 2,742
Home equity	2,475	—	—	2,274	2,274
Consumer and other	451	—	—	449	449
Total loans receivable, net(1)	$ 5,979	$ —	$ —	$ 5,465	$ 5,465
Investment in FHLB stock	$ 88	$ —	$ —	$ 88	$ 88
Deposits paid for securities borrowed	$ 474	$ —	$ 474	$ —	$ 474
Liabilities					
Deposits	$ 24,890	$ —	$ 24,890	$ —	$ 24,890
Securities sold under agreements to repurchase	$ 3,672	$ —	$ 3,681	$ —	$ 3,681
Customer payables	$ 6,455	$ —	$ 6,455	$ —	$ 6,455
FHLB advances and other borrowings	$ 1,299	$ —	$ 922	$ 252	$ 1,174
Corporate debt	$ 1,366	$ —	$ 1,491	$ —	$ 1,491
Deposits received for securities loaned	$ 1,649	$ —	$ 1,649	$ —	$ 1,649

(1) The carrying value of loans receivable, net includes the allowance for loan losses of $404 million and loans that are valued at fair value on a nonrecurring basis at December 31, 2014.

	December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 1,838	$ 1,838	$ —	$ —	$ 1,838
Cash required to be segregated under federal or other regulations	$ 1,066	$ 1,066	$ —	$ —	$ 1,066
Held-to-maturity securities:					
Agency mortgage-backed securities and CMOs	$ 8,359	$ —	$ 8,293	$ —	$ 8,293
Agency debentures	164	—	168	—	168
Agency debt securities	1,658	—	1,631	—	1,631
Total held-to-maturity securities	$ 10,181	$ —	$ 10,092	$ —	$ 10,092
Margin receivables	$ 6,353	$ —	$ 6,353	$ —	$ 6,353
Loans receivable, net:					
One- to four-family	$ 4,392	$ —	$ —	$ 3,790	$ 3,790
Home equity	3,148	—	—	2,822	2,822
Consumer and other	583	—	—	596	596
Total loans receivable, net(1)	$ 8,123	$ —	$ —	$ 7,208	$ 7,208
Investment in FHLB stock	$ 61	$ —	$ —	$ 61	$ 61
Deposits paid for securities borrowed	$ 536	$ —	$ 536	$ —	$ 536
Liabilities					
Deposits	$ 25,971	$ —	$ 25,971	$ —	$ 25,971
Securities sold under agreements to repurchase	$ 4,543	$ —	$ 4,571	$ —	$ 4,571
Customer payables	$ 6,310	$ —	$ 6,310	$ —	$ 6,310
FHLB advances and other borrowings	$ 1,279	$ —	$ 924	$ 225	$ 1,149
Corporate debt	$ 1,768	$ —	$ 1,951	$ —	$ 1,951
Deposits received for securities loaned	$ 1,050	$ —	$ 1,050	$ —	$ 1,050

(1) The carrying value of loans receivable, net includes the allowance for loan losses of $453 million and loans that are valued at fair value on a nonrecurring basis at December 31, 2013.

The fair value measurement techniques for financial instruments not carried at fair value on the consolidated balance sheet at December 31, 2014 and 2013 are summarized as follows:

Cash and equivalents, cash required to be segregated under federal or other regulations, margin receivables, deposits paid for securities borrowed, customer payables and deposits received for securities loaned—Fair value is estimated to be carrying value.

Held-to-maturity securities—The held-to-maturity securities portfolio included agency mortgage-backed securities and CMOs, agency debentures, agency debt securities, and other non-agency debt securities. The fair value of agency mortgage-backed securities is determined using market and income approaches with quoted market prices, recent market transactions and spread data for similar instruments. The fair value of agency CMOs and agency debt securities is determined using market and income approaches with the Company's own trading activities for identical or similar instruments. The fair value of agency debentures is based on quoted market prices that were derived from assumptions observable in the marketplace. Fair value of other non-agency debt securities is estimated to be carrying value.

Loans receivable, net—Fair value is estimated using a discounted cash flow model. Loans are differentiated based on their individual portfolio characteristics, such as product classification, loan category, pricing features and remaining maturity. Assumptions for expected losses, prepayments and discount rates are adjusted to reflect the individual characteristics of the loans, such as credit risk, coupon, term, and payment characteristics, as well as the secondary market conditions for these types of loans. There was limited or no observable market data for the home equity and one- to four-family loan portfolios, which indicates that the market for these types of loans is considered to be inactive. Given the limited market data, these fair value measurements cannot be determined with precision and changes in the underlying assumptions used, including discount rates, could significantly affect the results of current or future fair value estimates. In addition, the amount that would be realized in a forced liquidation, an actual sale or immediate settlement could be significantly lower than both the carrying value and the estimated fair value of the portfolio.

Investment in FHLB stock—FHLB stock is carried at cost, which is considered to be a reasonable estimate of fair value.

Deposits—Fair value is the amount payable on demand at the reporting date for sweep deposits, complete savings deposits, other money market and savings deposits and checking deposits. For certificates of deposit and brokered certificates of deposit, fair value is estimated by discounting future cash flows using discount factors derived from current observable rates implied for other similar instruments with similar remaining maturities.

Securities sold under agreements to repurchase—Fair value is determined by discounting future cash flows using discount factors derived from current observable rates implied for other similar instruments with similar remaining maturities.

FHLB advances and other borrowings—Fair value for FHLB advances is estimated by discounting future cash flows using discount factors derived from current observable rates implied for similar instruments with similar remaining maturities. For subordinated debentures, fair value is estimated by discounting future cash flows at the rate implied by dealer pricing quotes.

Corporate debt—Fair value is estimated using dealer pricing quotes. The fair value of the non-interest-bearing convertible debentures is directly correlated to the intrinsic value of the Company's underlying stock. As the price of the Company's stock increases relative to the conversion price, the fair value of the convertible debentures increases.

Fair Value of Commitments and Contingencies

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future. The Company does not estimate the fair value of those commitments. The Company has the right to cancel these commitments in certain circumstances and has closed a significant amount of customer home equity lines of credit in the past seven years. At December 31, 2014, the Company had $169 million of unfunded commitments to extend credit. Information related to such commitments and contingent liabilities is detailed in Note 21—Commitments, Contingencies and Other Regulatory Matters.

NOTE 5—OFFSETTING ASSETS AND LIABILITIES

For financial statement purposes, the Company does not offset derivative instruments, repurchase agreements or securities borrowing and securities lending transactions. The Company's derivative instruments, repurchase agreements and securities borrowing and securities lending transactions are generally transacted under master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course, as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. The following table presents information about these transactions to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at December 31, 2014 and 2013 (dollars in millions):

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Collateral Received or Pledged (Including Cash)	Net Amount
December 31, 2014						
Assets:						
Deposits paid for securities borrowed [1][5]	$ 474	$ —	$ 474	$ (188)	$ (267)	$ 19
Derivative assets [1][3]	24	—	24	(15)	(3)	6
Total	$ 498	$ —	$ 498	$ (203)	$ (270)	$ 25
Liabilities:						
Repurchase agreements [4]	$ 3,672	$ —	$ 3,672	$ —	$ (3,671)	$ 1
Deposits received for securities loaned [2][6]	1,649	—	1,649	(188)	(1,332)	129
Derivative liabilities [2][3]	30	—	30	(15)	(15)	—
Total	$ 5,351	$ —	$ 5,351	$ (203)	$ (5,018)	$ 130
December 31, 2013						
Assets:						
Deposits paid for securities borrowed [1][5]	$ 536	$ —	$ 536	$ (247)	$ (282)	$ 7
Derivative assets [1][3]	92	—	92	(48)	(12)	32
Total	$ 628	$ —	$ 628	$ (295)	$ (294)	$ 39
Liabilities:						
Repurchase agreements [4]	$ 4,543	$ —	$ 4,543	$ —	$ (4,537)	$ 6
Deposits received for securities loaned [2][6]	1,050	—	1,050	(247)	(740)	63
Derivative liabilities [2][3]	168	—	168	(48)	(120)	—
Total	$ 5,761	$ —	$ 5,761	$ (295)	$ (5,397)	$ 69

(1) Net amounts presented in the consolidated balance sheet are reflected in the other assets line item.
(2) Net amounts presented in the consolidated balance sheet are reflected in the other liabilities line item.
(3) Excludes net accrued interest payable of $7 million and $19 million at December 31, 2014 and 2013, respectively.
(4) The Company pledges available-for-sale and held-to-maturity securities as collateral for amounts due on repurchase agreements and derivative liabilities. The collateral pledged included available-for-sale securities at fair value and held-to-maturity securities at amortized cost for both December 31, 2014 and 2013.
(5) Included in the gross amounts of deposits paid for securities borrowed was $278 million and $415 million at December 31, 2014 and 2013, respectively, transacted through a program with a clearing organization, which guarantees the return of cash to the Company. For presentation purposes, these amounts presented are based on the original counterparties to the Company's master securities loan agreements.
(6) Included in the gross amounts of deposits received for securities loaned was $1.1 billion and $682 million at December 31, 2014 and 2013, respectively, transacted through a program with a clearing organization, which guarantees the return of securities to the Company. For presentation purposes, these amounts presented are based on the original counterparties to the Company's master securities loan agreements.

Effective June 10, 2013, certain types of derivatives that the Company trades are subject to the Dodd-Frank Act clearing mandate and as a result, are subject to derivatives clearing agreements ("cleared derivatives contracts"). These cleared derivatives contracts enable clearing by a derivatives clearing organization through a clearing member. Under the contracts, the clearing member typically has a one-way right to offset all contracts in the event of the Company's default or bankruptcy. As such, the cleared derivatives contracts are not bilateral master netting agreements and do not allow for offsetting. At December 31, 2014 and 2013, the Company had $0 and $15 million, respectively, in derivative assets of cleared derivatives contracts and $36 million and $1 million, respectively, in derivative liabilities of cleared derivatives contracts.

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NOTE 6—AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2014 and 2013 are shown in the following tables (dollars in millions):

	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Fair Value
December 31, 2014:				
Available-for-sale securities:				
Debt securities:				
Agency residential mortgage-backed securities and CMOs	$ 11,156	$ 113	$ (105)	$ 11,164
Agency debentures	620	28	—	648
Agency debt securities	487	12	—	499
Municipal bonds	40	1	(1)	40
Corporate bonds	5	—	(1)	4
Total debt securities	12,308	154	(107)	12,355
Publicly traded equity securities[1]	33	—	—	33
Total available-for-sale securities	$ 12,341	$ 154	$ (107)	$ 12,388
Held-to-maturity securities:				
Agency residential mortgage-backed securities and CMOs	$ 9,793	$ 217	$ (39)	$ 9,971
Agency debentures	164	2	—	166
Agency debt securities	2,281	54	(6)	2,329
Other non-agency debt securities	10	—	—	10
Total held-to-maturity securities	$ 12,248	$ 273	$ (45)	$ 12,476
December 31, 2013:				
Available-for-sale securities:				
Debt securities:				
Residential mortgage-backed securities:				
Agency mortgage-backed securities and CMOs	$ 12,505	$ 66	$ (335)	$ 12,236
Non-agency CMOs	17	2	(5)	14
Total residential mortgage-backed securities	12,522	68	(340)	12,250
Agency debentures	520	—	(54)	466
Agency debt securities	832	8	(9)	831
Municipal bonds	42	—	(2)	40
Corporate bonds	6	—	(1)	5
Total debt securities	13,922	76	(406)	13,592
Total available-for-sale securities	$ 13,922	$ 76	$ (406)	$ 13,592
Held-to-maturity securities:				
Agency residential mortgage-backed securities and CMOs	$ 8,359	$ 99	$ (165)	$ 8,293
Agency debentures	164	4	—	168
Agency debt securities	1,658	13	(40)	1,631
Total held-to-maturity securities	$ 10,181	$ 116	$ (205)	$ 10,092

(1) Publicly traded equity securities consisted of investments in a mutual fund related to the Community Reinvestment Act.

Contractual Maturities

The contractual maturities of all available-for-sale and held-to-maturity debt securities at December 31, 2014 are shown below (dollars in millions):

	Amortized Cost	Fair Value
Available-for-sale debt securities:		
Due within one year	$ 3	$ 3
Due within one to five years	9	9
Due within five to ten years	842	849
Due after ten years	11,454	11,494
Total available-for-sale debt securities	$ 12,308	$ 12,355
Held-to-maturity debt securities:		
Due within one year	$ 169	$ 171
Due within one to five years	892	921
Due within five to ten years	2,787	2,868
Due after ten years	8,400	8,516
Total held-to-maturity debt securities	$ 12,248	$ 12,476

The Company pledged $1.6 billion and $2.1 billion at December 31, 2014 and 2013, respectively, of available-for-sale debt securities and $3.1 billion and $3.4 billion at December 31, 2014 and 2013, respectively, of held-to-maturity debt securities as collateral for repurchase agreements, derivatives and other purposes.

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Investments with Unrealized or Unrecognized Losses

The following tables show the fair value and unrealized or unrecognized losses on available-for-sale and held-to-maturity securities, aggregated by investment category, and the length of time that individual securities have been in a continuous unrealized or unrecognized loss position at December 31, 2014 and 2013 (dollars in millions):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses
December 31, 2014:						
Available-for-sale securities:						
Debt securities:						
Agency residential mortgage-backed securities and CMOs	$ 403	$ (1)	$ 4,674	$ (104)	$ 5,077	$ (105)
Agency debentures	—	—	9	—	9	—
Municipal bonds	3	—	16	(1)	19	(1)
Corporate bonds	—	—	5	(1)	5	(1)
Total temporarily impaired available-for-sale securities	$ 406	$ (1)	$ 4,704	$ (106)	$ 5,110	$ (107)
Held-to-maturity securities:						
Agency residential mortgage-backed securities and CMOs	$ 45	$ —	$ 2,289	$ (39)	$ 2,334	$ (39)
Agency debt securities	110	(1)	560	(5)	670	(6)
Total temporarily impaired held-to-maturity securities	$ 155	$ (1)	$ 2,849	$ (44)	$ 3,004	$ (45)
December 31, 2013:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities and CMOs	$ 6,422	$ (268)	$ 1,266	$ (67)	$ 7,688	$ (335)
Non-agency CMOs	—	—	11	(5)	11	(5)
Agency debentures	466	(54)	—	—	466	(54)
Agency debt securities	384	(9)	—	—	384	(9)
Municipal bonds	27	(2)	—	—	27	(2)
Corporate bonds	—	—	5	(1)	5	(1)
Total temporarily impaired available-for-sale securities	$ 7,299	$ (333)	$ 1,282	$ (73)	$ 8,581	$ (406)
Held-to-maturity securities:						
Agency residential mortgage-backed securities and CMOs	$ 3,607	$ (121)	$ 891	$ (44)	$ 4,498	$ (165)
Agency debt securities	1,153	(40)	—	—	1,153	(40)
Total temporarily impaired held-to-maturity securities	$ 4,760	$ (161)	$ 891	$ (44)	$ 5,651	$ (205)

The Company does not believe that any individual unrealized loss in the available-for-sale or unrecognized loss in the held-to-maturity portfolio as of December 31, 2014 represents a credit loss. The credit loss component is the difference between the security's amortized cost basis and the present value of its expected future cash flows, and is recognized in earnings. The noncredit loss component is the difference between the present value of its expected future cash flows and the fair value and is recognized through other comprehensive income (loss). The Company assessed whether it intends to sell, or whether it is more likely than not that the Company will be required to sell an impaired security before recovery of its amortized cost basis. For debt securities that are considered other-than-temporarily impaired and that the Company does not intend to sell as of the balance sheet date and will not be required to sell prior to recovery of its amortized cost basis, the Company determines the amount of the impairment that is related to credit and the amount due to all other factors.

The majority of the unrealized or unrecognized losses on mortgage-backed securities are attributable to changes in interest rates and a re-pricing of risk in the market. Agency mortgage-backed securities and CMOs, agency debentures and agency debt securities are guaranteed or issued by U.S. government sponsored enterprises and federal agencies. Municipal bonds and corporate bonds are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position as of the balance sheet date and it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position at December 31, 2014.

The following table presents a roll forward for the years ended December 31, 2014, 2013 and 2012 of the credit loss component on debt securities held by the Company that had a noncredit loss recognized in other comprehensive income (loss) and had a credit loss recognized in earnings (dollars in millions):

	Year Ended December 31,		
	2014	2013	2012
Credit loss balance, beginning of period	$ 166	$ 187	$ 203
Additions:			
Initial credit impairment	—	—	1
Subsequent credit impairment	—	3	16
Debt securities sold	(14)	(24)	(33)
Credit loss balance, end of period (1)	$ 152	$ 166	$ 187

(1) The credit loss balance at December 31, 2014, 2013 and 2012 included $123 million, $121 million and $114 million, respectively, of credit losses associated with debt securities that have been factored to zero, but the Company still holds legal title to these securities until maturity or until they are sold.

Gains on Loans and Securities, Net

The detailed components of the gains on loans and securities, net line item on the consolidated statement of income (loss) for the years ended December 31, 2014, 2013 and 2012 are as follows (dollars in millions):

	Year Ended December 31,		
	2014	2013	2012
Gains (losses) on loans, net	$ 4	$ (1)	$ 1
Gains on securities, net:			
Gains on available-for-sale securities	42	69	212
Losses on available-for-sale securities	—	(8)	(5)
Hedge ineffectiveness	(10)	1	(7)
Gains on securities, net	32	62	200
Gains on loans and securities, net	$ 36	$ 61	$ 201

During the year ended December 31, 2014, the Company recognized a pre-tax gain of $7 million on the sale of $0.8 billion of one- to four-family loans modified as TDRs. The Company also sold $17 million in amortized cost of its available-for-sale non-agency CMOs for proceeds of approximately $23 million, which resulted in a pre-tax gain of $6 million. Similarly, during the year ended December 31, 2013, the Company sold $231 million in amortized cost of its available-for-sale non-agency CMOs for proceeds of approximately $227 million, which resulted in a pre-tax loss of $4 million.

NOTE 7—LOANS RECEIVABLE, NET

Loans receivable, net at December 31, 2014 and 2013 are summarized as follows (dollars in millions):

	December 31,	
	2014	2013
One- to four-family	$ 3,060	$ 4,475
Home equity	2,834	3,454
Consumer and other	455	602
Total loans receivable	6,349	8,531
Unamortized premiums, net	34	45
Allowance for loan losses	(404)	(453)
Total loans receivable, net	$ 5,979	$ 8,123

At December 31, 2014, the Company pledged $5.4 billion and $0.5 billion of loans as collateral to the FHLB and Federal Reserve Bank, respectively. At December 31, 2013, the Company pledged $6.8 billion and $0.6 billion of loans as collateral to the FHLB and Federal Reserve Bank, respectively. Additionally, the Company's entire loans receivable portfolio was serviced by other companies at December 31, 2014 and 2013. During the second quarter of 2014, the Company sold $0.8 billion of one- to four-family loans modified as TDRs.

The following table represents the breakdown of the total recorded investment in loans receivable and allowance for loan losses by loans that have been collectively evaluated for impairment and those that have been individually evaluated for impairment at December 31, 2014 and 2013 (dollars in millions):

	Recorded Investment		Allowance for Loan Losses	
	December 31,		December 31,	
	2014	2013	2014	2013
Loans collectively evaluated for impairment	$ 5,850	$ 7,163	$ 338	$ 329
Loans individually evaluated for impairment (TDRs)	533	1,413	66	124
Total	$ 6,383	$ 8,576	$ 404	$ 453

Credit Quality and Concentrations of Credit Risk

The Company tracks and reviews factors to predict and monitor credit risk in its mortgage loan portfolio on an ongoing basis. These factors include: loan type, estimated current LTV/CLTV ratios, delinquency history, documentation type, borrowers' current credit scores, housing prices, loan vintage and geographic location of the property. In economic conditions in which housing prices generally appreciate, the Company believes that loan type, LTV/CLTV ratios and credit scores are the key factors in determining future loan performance. In a housing market with declining home prices and less credit available for refinance, the Company believes the LTV/CLTV ratio becomes a more important factor in predicting and monitoring credit risk. The factors are updated on at least a quarterly basis. The Company tracks and reviews delinquency status to predict and monitor credit risk in the consumer and other loan portfolio on at least a quarterly basis.

Credit Quality

The following tables show the distribution of the Company's mortgage loan portfolios by credit quality indicator at December 31, 2014 and 2013 (dollars in millions):

Current LTV/CLTV (1)	One- to Four-Family		Home Equity	
	December 31,		December 31,	
	2014	2013	2014	2013
<=80%	$ 1,757	$ 1,912	$ 1,081	$ 1,142
80%-100%	807	1,365	755	866
100%-120%	311	711	557	736
>120%	185	487	441	710
Total mortgage loans receivable	$ 3,060	$ 4,475	$ 2,834	$ 3,454
Average estimated current LTV/CLTV (2)	79%	90%	92%	98%
Average LTV/CLTV at loan origination (3)	71%	72%	80%	80%

(1) Current CLTV calculations for home equity loans are based on the maximum available line for home equity lines of credit and outstanding principal balance for home equity installment loans. For home equity loans in the second lien position, the original balance of the first lien loan at origination date and updated valuations on the property underlying the loan are used to calculate CLTV. Current property values are updated on a quarterly basis using the most recent property value data available to the Company. For properties in which the Company did not have an updated valuation, home price indices were utilized to estimate the current property value.

(2) The average estimated current LTV/CLTV ratio reflects the outstanding balance at the balance sheet date and the maximum available line for home equity lines of credit, divided by the estimated current value of the underlying property.

(3) Average LTV/CLTV at loan origination calculations are based on LTV/CLTV at time of purchase for one- to four-family purchased loans and undrawn balances for home equity loans.

Current FICO (1)	One- to Four-Family		Home Equity	
	December 31,		December 31,	
	2014	2013	2014	2013
>=720	$ 1,734	$ 2,252	$ 1,487	$ 1,811
719 - 700	296	436	292	343
699 - 680	260	366	238	293
679 - 660	197	296	203	245
659 - 620	237	404	258	310
<620	336	721	356	452
Total mortgage loans receivable	$ 3,060	$ 4,475	$ 2,834	$ 3,454

(1) FICO scores are updated on a quarterly basis; however, at December 31, 2014 and 2013, there were some loans for which the updated FICO scores were not available. The current FICO distribution at December 31, 2014 included the most recent FICO scores where available, otherwise the original FICO score was used, for approximately $49 million and $4 million of one- to four-family and home equity loans, respectively. The current FICO distribution at December 31, 2013 included original FICO scores for approximately $95 million and $10 million of one- to four-family and home equity loans, respectively.

Concentrations of Credit Risk

One- to four-family loans include interest-only loans for a five to ten year period, followed by an amortizing period ranging from 20 to 25 years. At December 31, 2014, 42% of the Company's one- to four-family portfolio were not yet amortizing. However, during the year ended December 31, 2014, based on the unpaid principal balance before charge-offs, approximately 15% of these borrowers made voluntary annual principal payments of at least $2,500 and slightly over a third of those borrowers made voluntary annual principal payments of at least $10,000.

The home equity loan portfolio is primarily second lien loans on residential real estate properties, which have a higher level of credit risk than first lien mortgage loans. Approximately 15% of the home equity portfolio was in the first lien position and the Company holds both the first and second lien positions in less than 1% of the home equity loan portfolio at December 31, 2014. The home equity loan portfolio consists of approximately 19% of home equity installment loans and approximately 81% of home equity lines of credit at December 31, 2014.

Home equity installment loans are primarily fixed rate and fixed term, fully amortizing loans that do not offer the option of an interest-only payment. The majority of home equity lines of credit convert to amortizing loans at the end of the draw period, which typically ranges from five to ten years. Approximately 7% of this portfolio will require the borrowers to repay the loan in full at the end of the draw period. At December 31, 2014, 85% of the home equity line of credit portfolio had not converted from the interest-only draw period and had not begun amortizing. However, during the year ended December 31, 2014, approximately 40% of the borrowers of the Company's not yet converted home equity line of credit loans made annual principal payments of at least $500 on their home equity lines of credit and slightly under half of those borrowers reduced their principal balance by at least $2,500.

The following table outlines when one- to four-family and home equity lines of credit convert to amortizing by percentage of the one- to four-family portfolio and home equity line of credit portfolios, respectively, at December 31, 2014:

Period of Conversion to Amortizing Loan	% of One- to Four-Family Portfolio	% of Home Equity Line of Credit Portfolio
Already amortizing	58%	15%
Year ending December 31, 2015	5%	27%
Year ending December 31, 2016	16%	44%
Year ending December 31, 2017 or later	21%	14%

Approximately 38% and 40% of the Company's mortgage loans receivable were concentrated in California at December 31, 2014 and 2013, respectively. No other state had concentrations of mortgage loans that represented 10% or more of the Company's mortgage loans receivable at December 31, 2014 and 2013.

Delinquent Loans

The following table shows total loans receivable by delinquency category at December 31, 2014 and 2013 (dollars in millions):

	Current	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total
December 31, 2014					
One- to four-family	$ 2,813	$ 88	$ 28	$ 131	$ 3,060
Home equity	2,702	60	29	43	2,834
Consumer and other	447	7	1	—	455
Total loans receivable	$ 5,962	$ 155	$ 58	$ 174	$ 6,349
December 31, 2013					
One- to four-family	$ 3,988	$ 190	$ 70	$ 227	$ 4,475
Home equity	3,309	69	36	40	3,454
Consumer and other	587	12	3	—	602
Total loans receivable	$ 7,884	$ 271	$ 109	$ 267	$ 8,531

Nonperforming Loans

The following table shows the comparative data for nonperforming loans (dollars in millions):

	December 31, 2014	December 31, 2013
One- to four-family	$ 294	$ 526
Home equity	165	164
Consumer and other	1	3
Total nonperforming loans receivable	$ 460	$ 693

Nonperforming loans decreased $233 million to $460 million at December 31, 2014 when compared to December 31, 2013. The decrease in the one- to four-family nonperforming loans receivable during the year ended December 31, 2014 was primarily due to the sale of one- to four-family loans modified as TDRs, which included $377 million of nonperforming loans. The decrease in nonperforming loans receivable was partially offset by the increase in nonperforming TDRs that had been charged-off due to bankruptcy notification. In February 2014, the OCC issued clarifying guidance related to consumer debt discharged in Chapter 7 bankruptcy proceedings. As a result of the clarifying guidance, beginning the first quarter of 2014 these bankruptcy loans remain on nonaccrual status regardless of payment history. This change did not have a material impact on the statement of financial condition, results of operations or cash flows. Prior to this change, the Company had $238 million of bankruptcy loans classified as performing loans at December 31, 2013.

Real Estate Owned and Loans with Formal Foreclosure Proceedings in Process

At December 31, 2014 and 2013, the Company held $36 million and $50 million, respectively, of real estate owned that were acquired through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The Company also held $107 million and $199 million of loans for which formal foreclosure proceedings were in process at December 31, 2014 and 2013, respectively.

Allowance for Loan Losses

The following table provides a roll forward by loan portfolio of the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31, 2014			
	One- to Four-Family	Home Equity	Consumer and Other	Total
Allowance for loan losses, beginning of period	$ 102	$ 326	$ 25	$ 453
Provision for loan losses	(42)	82	(4)	36
Charge-offs	(44)	(65)	(17)	(126)
Recoveries	11	24	6	41
Charge-offs, net	(33)	(41)	(11)	(85)
Allowance for loan losses, end of period	$ 27	$ 367	$ 10	$ 404

	Year Ended December 31, 2013			
	One- to Four-Family	Home Equity	Consumer and Other	Total
Allowance for loan losses, beginning of period	$ 184	$ 257	$ 40	$ 481
Provision for loan losses	(55)	192	6	143
Charge-offs	(41)	(157)	(33)	(231)
Recoveries	14	34	12	60
Charge-offs, net	(27)	(123)	(21)	(171)
Allowance for loan losses, end of period	$ 102	$ 326	$ 25	$ 453

	Year Ended December 31, 2012			
	One- to Four-Family	Home Equity	Consumer and Other	Total
Allowance for loan losses, beginning of period	$ 314	$ 463	$ 46	$ 823
Provision for loan losses	51	271	33	355
Charge-offs	(190)	(517)	(51)	(758)
Recoveries	9	40	12	61
Charge-offs, net	(181)	(477)	(39)	(697)
Allowance for loan losses, end of period	$ 184	$ 257	$ 40	$ 481

The general allowance for loan losses also included a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors the Company believes may impact the level of credit losses. The total qualitative component was $37 million and $62 million at December 31, 2014 and 2013, respectively.

Total allowance for loan losses decreased during the year ended December 31, 2014 primarily due to the sale of one- to four-family loans modified as TDRs. As a result of this sale, the Company recorded a charge-off related to one- to four-family loans of $42 million which drove the majority of the decrease in the allowance for loan losses.

During the years ended December 31, 2014, 2013 and 2012, the Company agreed to settlements with third party mortgage originators specific to loans sold to the Company by those originators. One-time payments were agreed upon to satisfy in full all pending and future repurchase requests with those specific originators. The Company applied the full amount of payments of $11 million, $13 million and $11 million for the years ended December 31, 2014, 2013 and 2012, respectively, as recoveries to the allowance for loan losses, resulting in a corresponding reduction to net charge-offs as well as provision for loan losses.

Impaired Loans—Troubled Debt Restructurings

TDRs include two categories of loans: (1) loan modifications completed under the Company's programs that involve granting an economic concession to a borrower experiencing financial difficulty, and (2) loans that have been charged off based on the estimated current value of the underlying property less estimated selling costs due to bankruptcy notification.

Delinquency status is the primary measure the Company uses to evaluate the performance of loans modified as TDRs. As mentioned above, the Company classifies loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans, including loans in bankruptcy, and certain junior liens that have a delinquent senior lien. The following table shows a summary of the Company's recorded investment in TDRs that were on accrual and nonaccrual status, further disaggregated by delinquency status, in addition to the recorded investment in TDRs at December 31, 2014 and 2013 (dollars in millions):

		Nonaccrual TDRs				
	Accrual TDRs(1)	Current(2)	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total Recorded Investment in TDRs (3)(4)
December 31, 2014						
One- to four-family	$ 121	$ 111	$ 24	$ 12	$ 48	$ 316
Home equity	127	51	14	6	19	217
Total	$ 248	$ 162	$ 38	$ 18	$ 67	$ 533
December 31, 2013						
One- to four-family	$ 774	$ 127	$ 102	$ 44	$ 125	$ 1,172
Home equity	176	22	17	7	19	241
Total	$ 950	$ 149	$ 119	$ 51	$ 144	$ 1,413

(1) Represents loans modified as TDRs that are current and have made six or more consecutive payments.
(2) Represents loans modified as TDRs that are current but have not yet made six consecutive payments, bankruptcy loans and certain junior lien TDRs that have a delinquent senior lien.
(3) The unpaid principal balance in one- to four-family TDRs was $0.3 billion and $1.2 billion at December 31, 2014 and 2013, respectively. For home equity loans, the recorded investment in TDRs represents the unpaid principal balance.
(4) Total recorded investment in TDRs at December 31, 2014 consisted of $354 million of loans modified as TDRs and $179 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2013 consisted of $1.2 billion of loans modified as TDRs and $189 million of loans that have been charged off due to bankruptcy notification.

The decrease in the one- to four-family TDRs was primarily due to the sale of $0.8 billion of one- to four-family loans modified as TDRs during the second quarter of 2014.

The following table shows the average recorded investment and interest income recognized both on a cash and accrual basis for the Company's TDRs during the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Average Recorded Investment			Interest Income Recognized		
	December 31,			December 31,		
	2014	2013	2012	2014	2013	2012
One- to four-family	$ 576	$ 1,205	$ 1,054	$ 16	$ 33	$ 31
Home equity	227	262	297	18	20	12
Total	$ 803	$ 1,467	$ 1,351	$ 34	$ 53	$ 43

Included in the allowance for loan losses was a specific valuation allowance of $66 million and $124 million that was established for TDRs at December 31, 2014 and 2013, respectively. The specific allowance for these individually impaired loans represents the forecasted losses over the estimated remaining life of the loans, including the economic concessions granted to the borrowers. The following table shows detailed information related to the Company’s TDRs at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014			December 31, 2013		
	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs
With a recorded allowance:						
One- to four-family	$ 88	$ 9	$ 79	$ 403	$ 60	$ 343
Home equity	$ 118	$ 57	$ 61	$ 140	$ 64	$ 76
Without a recorded allowance:(1)						
One- to four-family	$ 228	$ —	$ 228	$ 769	$ —	$ 769
Home equity	$ 99	$ —	$ 99	$ 101	$ —	$ 101
Total:						
One- to four-family	$ 316	$ 9	$ 307	$ 1,172	$ 60	$ 1,112
Home equity	$ 217	$ 57	$ 160	$ 241	$ 64	$ 177

(1) Represents loans where the discounted cash flow analysis or collateral value is equal to or exceeds the recorded investment in the loan.

Troubled Debt Restructurings — Loan Modifications

The Company has loan modification programs that focus on the mitigation of potential losses in the one- to four-family and home equity mortgage loan portfolio. The Company currently does not have an active loan modification program for consumer and other loans. The various types of economic concessions that may be granted in a loan modification typically consist of interest rate reductions, maturity date extensions, principal forgiveness or a combination of these concessions. The Company uses specialized servicers that focus on loan modifications and pursue trial modifications for loans that are more than 180 days delinquent. Trial modifications are classified immediately as TDRs and continue to be reported as delinquent until the successful completion of the trial period, which is typically 90 days. The loan then becomes a permanent modification reported as current but remains on nonaccrual status until six consecutive payments have been made.

The vast majority of the Company’s loans modified as TDRs include an interest rate reduction in combination with another type of concession. The Company prioritizes the interest rate reduction modifications in combination with the following modification categories: principal forgiven, principal deferred and re-age/extension/capitalization of accrued interest. Each class is mutually exclusive in that if a modification had an interest rate reduction with principal forgiven and an extension, the modification would only be presented in the principal forgiven column in the table below. The following tables provide the number of loans, post-modification balances immediately after being modified by major class, and the financial impact of modifications during the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31, 2014						
		Interest Rate Reduction					
	Number of Loans	Principal Forgiven	Principal Deferred	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other	Total
One- to four-family	64	$ 1	$ —	$ 11	$ 2	$ 6	$ 20
Home equity	195	—	—	4	2	9	15
Total	259	$ 1	$ —	$ 15	$ 4	$ 15	$ 35

	Year Ended December 31, 2013						
		Interest Rate Reduction					
	Number of Loans	Principal Forgiven	Principal Deferred	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other	Total
One- to four-family	324	$ 19	$ 5	$ 71	$ 11	$ 18	$ 124
Home equity	253	—	—	7	7	7	21
Total	577	$ 19	$ 5	$ 78	$ 18	$ 25	$ 145

	Year Ended December 31, 2012						
		Interest Rate Reduction					
	Number of Loans	Principal Forgiven	Principal Deferred	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other	Total
One- to four-family	614	$ 53	$ 37	$ 131	$ 12	$ 19	$ 252
Home equity	638	—	—	5	39	10	54
Total	1,252	$ 53	$ 37	$ 136	$ 51	$ 29	$ 306

	Year Ended December 31, 2014		
	Financial Impact		
	Principal Forgiven	Pre-Modification Weighted Average Interest Rate	Post-Modification Weighted Average Interest Rate
One- to four-family	$ —	5.2%	2.6%
Home equity	—	5.4%	2.4%
Total	$ —		

	Year Ended December 31, 2013		
	Financial Impact		
	Principal Forgiven	Pre-Modification Weighted Average Interest Rate	Post-Modification Weighted Average Interest Rate
One- to four-family	$ 7	5.2%	2.3%
Home equity	—	4.7%	1.9%
Total	$ 7		

	Year Ended December 31, 2012		
	Financial Impact		
	Principal Forgiven	Pre-Modification Weighted Average Interest Rate	Post-Modification Weighted Average Interest Rate
One- to four-family	$ 17	5.9%	2.3%
Home equity	—	4.4%	1.5%
Total	$ 17		

The Company considers modifications that become 30 days past due to have experienced a payment default. The following table shows the recorded investment in modifications that experienced a payment default within 12 months after the modification for the three years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31,					
	2014		2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
One- to four-family(1)	27	$ 9	142	$ 53	260	$ 100
Home equity(2)	55	3	69	3	367	18
Total	82	$ 12	211	$ 56	627	$ 118

(1) For the years ended December 31, 2014, 2013 and 2012, $1 million, $18 million and $28 million, respectively, of the recorded investment in one- to four-family loans that had a payment default in the trailing 12 months was classified as current.
(2) For the years ended December 31, 2014, 2013 and 2012, $1 million, $1 million and $6 million, respectively, of the recorded investment in home equity loans that had a payment default in the trailing 12 months was classified as current.

NOTE 8—ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into derivative transactions primarily to protect against interest rate risk on the value of certain assets, liabilities and future cash flows. Cash flow hedges, which include a combination of interest rate swaps and purchased options, including caps, are used primarily to reduce the variability of future cash flows associated with existing variable-rate assets and liabilities and forecasted issuances of liabilities. Fair value hedges, which include interest rate swaps, are used to offset exposure to changes in value of certain fixed-rate assets and liabilities. Each derivative instrument is recorded on the consolidated balance sheet at fair value as a freestanding asset or liability. The following table summarizes the fair value amounts of derivatives designated as hedging instruments reported in the consolidated balance sheet at December 31, 2014 and 2013 (dollars in millions):

		Fair Value		
	Notional	Asset(1)	Liability(2)	Net(3)
December 31, 2014				
Interest rate contracts:				
Cash flow hedges	$ 2,000	$ 23	$ (24)	$ (1)
Fair value hedges	1,069	1	(42)	(41)
Total derivatives designated as hedging instruments(4)	$ 3,069	$ 24	$ (66)	$ (42)
December 31, 2013				
Interest rate contracts:				
Cash flow hedges	$ 3,305	$ 27	$ (168)	$ (141)
Fair value hedges	1,614	80	(1)	79
Total derivatives designated as hedging instruments(4)	$ 4,919	$ 107	$ (169)	$ (62)

(1) Reflected in the other assets line item on the consolidated balance sheet.
(2) Reflected in the other liabilities line item on the consolidated balance sheet.
(3) Represents derivative assets net of derivative liabilities for disclosure purposes only.
(4) All derivatives were designated as hedging instruments at December 31, 2014 and 2013.

Cash Flow Hedges

The effective portion of the changes in fair value of the derivative instruments in a cash flow hedge is reported as a component of accumulated other comprehensive loss, net of tax in the consolidated balance sheet, for both active and discontinued hedges. Amounts are reclassified from accumulated other comprehensive loss into net operating interest income as a yield adjustment in the same period the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative instrument in a cash flow hedge, which is equal to the excess of the cumulative change in the fair value of the actual derivative over the cumulative change in the fair value of a hypothetical derivative which is created to match the exact terms of the underlying instruments being hedged, is reported in the gains on loans and securities, net line item in the consolidated statement of income (loss).

If it becomes probable that a hedged forecasted transaction will not occur, amounts included in accumulated other comprehensive loss related to the specific hedging instruments would be immediately reclassified into the gains on loans and securities, net line item in the consolidated statement of income (loss). If hedge accounting is discontinued because a derivative instrument is sold, terminated or otherwise de-designated, amounts included in accumulated other comprehensive loss related to the specific hedging instrument continue to be reported in accumulated other comprehensive loss until the forecasted transaction affects earnings.

The future issuances of liabilities, including repurchase agreements, are largely dependent on the market demand and liquidity in the wholesale borrowings market. At December 31, 2014, the Company believes the forecasted issuance of all liabilities in cash flow hedge relationships is probable. However, unexpected changes in market conditions in future periods could impact the ability to issue these liabilities. The Company believes the forecasted issuance of liabilities in the form of repurchase agreements is most susceptible to an unexpected change in market conditions.

The following table summarizes the effect of interest rate contracts designated and qualifying as hedging instruments in cash flow hedges on accumulated other comprehensive loss and on the consolidated statement of income (loss) for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	For the Year Ended December 31,		
	2014	2013	2012
Gains (losses) on derivatives recognized in OCI (effective portion), net of tax	$ (39)	$ 67	$ (72)
Losses reclassified from AOCI into earnings (effective portion), net of tax	$ (76)	$ (87)	$ (78)
Cash flow hedge ineffectiveness gains(1)	$ —	$ 1	$ —

(1) The cash flow hedge ineffectiveness is reflected in the gains on loans and securities, net line item on the consolidated statement of income (loss).

During the upcoming twelve months, the Company expects to include a pre-tax amount of approximately $101 million of net unrealized losses that are currently reflected in accumulated other comprehensive loss in net operating interest income as a yield adjustment in the same periods in which the related hedged items affect earnings. The maximum length of time over which transactions are hedged is 8 years.

The following table shows the balance in accumulated other comprehensive loss attributable to active and discontinued cash flow hedges at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014	December 31, 2013
Accumulated other comprehensive loss balance (net of tax) related to:		
Discontinued cash flow hedges	$ (227)	$ (201)
Active cash flow hedges	(34)	(97)
Total cash flow hedges	$ (261)	$ (298)

The following table shows the balance in accumulated other comprehensive loss attributable to cash flow hedges by type of hedged item at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014	December 31, 2013
Repurchase agreements	$ (341)	$ (379)
FHLB advances	(81)	(99)
Total balance of cash flow hedges, before tax	(422)	(478)
Tax benefit	161	180
Total balance of cash flow hedges, net of tax	$ (261)	$ (298)

Fair Value Hedges

Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value of the asset or liability being hedged on the consolidated balance sheet. Changes in the fair value of both the derivative instruments and the underlying assets or liabilities are recognized in the gains on loans and securities, net line item in the consolidated statement of income (loss). To the extent that the hedge is ineffective, the changes in the fair values will not offset and the difference, or hedge ineffectiveness, is reflected in the gains on loans and securities, net line item in the consolidated statement of income (loss).

Hedge accounting is discontinued for fair value hedges if a derivative instrument is sold, terminated or otherwise de-designated. If fair value hedge accounting is discontinued, the previously hedged item is no longer adjusted for changes in fair value through the consolidated statement of income (loss) and the cumulative net gain or loss on the hedged asset or liability at the time of de-designation is amortized to interest income or interest expense using the effective interest method over the expected remaining life of the hedged item. Changes in the fair value of the derivative instruments after de-designation of fair value hedge accounting are recorded in the gains on loans and securities, net line item in the consolidated statement of income (loss).

The following table summarizes the effect of interest rate contracts designated and qualifying as hedging instruments in fair value hedges and related hedged items on the consolidated statement of income (loss) for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31,					
	2014			2013		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)
Agency debentures	$ (100)	$ 91	$ (9)	$ 73	$ (72)	$ 1
Agency mortgage-backed securities	(33)	32	(1)	34	(35)	(1)
Total gains (losses) included in earnings	$ (133)	$ 123	$ (10)	$ 107	$ (107)	$ —

	Year Ended December 31,		
	2012		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)
Agency debentures	$ (18)	$ 16	$ (2)
Agency mortgage-backed securities	(7)	7	—
FHLB advances	14	(19)	(5)
Total gains (losses) included in earnings	$ (11)	$ 4	$ (7)

(1) Reflected in the gains on loans and securities, net line item on the consolidated statement of income (loss).

Credit Risk

Impact on Fair Value Measurements

Credit risk is an element of the recurring fair value measurements for certain assets and liabilities, including derivative instruments. Credit risk is managed by limiting activity to approved counterparties and setting aggregate exposure limits for each approved counterparty. The Company also monitors collateral requirements on derivative instruments through credit support agreements, which reduce risk by permitting the netting of transactions with the same counterparty upon occurrence of certain events.

The Company considered the impact of credit risk on the fair value measurement for derivative instruments, particularly those in net liability positions to counterparties, to be mitigated by the enforcement of credit support agreements, and the collateral requirements therein. The Company pledged approximately $126 million of its cash and mortgage-backed securities as collateral related to its derivative contracts in net liability positions to counterparties at December 31, 2014.

The Company’s credit risk analysis for derivative instruments also considered the credit loss exposure on derivative instruments in net asset positions. During the year ended December 31, 2014, the consideration of counterparty credit risk did not result in an adjustment to the valuation of the Company’s derivative instruments.

Impact on Liquidity

In the normal course of business, collateral requirements contained in the Company’s derivative instruments are enforced by the Company and its counterparties. Upon enforcement of the collateral requirements, the amount of collateral requested is typically based on the net fair value of all derivative instruments with the counterparty; that is derivative assets net of derivative liabilities at the counterparty level. If the Company were to be in violation of certain provisions of the derivative instruments, the counterparties to the derivative instruments could request payment or collateralization on derivative instruments. The Company expects such requests would be based on the fair value of derivative assets net of derivative liabilities at the counterparty level. The fair value of derivative instruments in net liability positions at the counterparty level was $51 million at December 31, 2014. The fair value of the Company's cash and mortgage-backed securities pledged as collateral related to derivative contracts in net liability positions to counterparties, was $126 million at December 31, 2014, which exceeded derivative instruments in net liability positions at the counterparty level by $75 million.

NOTE 9—PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following assets at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014			December 31, 2013		
	Gross Amount	Accumulated Depreciation and Amortization	Net Amount	Gross Amount	Accumulated Depreciation and Amortization	Net Amount
Software	$ 487	$ (391)	$ 96	$ 489	$ (373)	$ 116
Leasehold improvements	114	(84)	30	112	(77)	35
Equipment	102	(76)	26	95	(73)	22
Buildings	72	(26)	46	72	(24)	48
Furniture and fixtures	23	(21)	2	23	(20)	3
Land	3	—	3	3	—	3
Construction in progress	42	—	42	10	—	10
Total	$ 843	$ (598)	$ 245	$ 804	$ (567)	$ 237

Depreciation and amortization expense related to property and equipment was $78 million, $89 million and $91 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Software includes capitalized internally developed software costs of $27 million, $24 million and $55 million for the years ended December 31, 2014, 2013 and 2012, respectively. Amortization of completed and in-service software was $47 million, $57 million and $58 million for the years ended December 31, 2014, 2013 and 2012, respectively. Software at December 31, 2014 and 2013 also included $19 million and $15 million, respectively, of internally developed software in the process of development for which amortization has not begun.

Sale-Leaseback Transaction

On October 31, 2014, the Company executed a sale-leaseback transaction on its office located in Alpharetta, Georgia. This transaction has been treated as a financing as it did not qualify for leaseback accounting due to the presence of a sub-lease and various forms of continuing involvement in the lease. The Company recorded the net sales proceeds of approximately $56 million as a financing obligation in the other liabilities line item and the related assets continue to be included in the property and equipment, net line item on the consolidated balance sheet.

The obligation for future minimum lease payments and minimum sublease proceeds to be received under this lease is as follows (dollars in millions):

	Obligation for Minimum Lease Payments	Minimum Sublease Proceeds
Years ending December 31,		
2015	$ 4	$ (3)
2016	4	(3)
2017	5	(3)
2018	5	(3)
2019	5	(3)
Thereafter	24	(9)
Total	$ 47	$ (24)

NOTE 10—GOODWILL AND OTHER INTANGIBLES, NET

Goodwill

The following table outlines the activity in the carrying value of the Company’s goodwill, which is all assigned to the Company’s trading and investing segment (dollars in millions):

	Trading & Investing
Balance at December 31, 2012	$ 1,934
Impairment of goodwill	(142)
Balance at December 31, 2013	1,792
Activity	—
Balance at December 31, 2014	$ 1,792

Goodwill is evaluated for impairment on an annual basis as of November 30 and in interim periods when events or changes indicate the carrying value may not be recoverable. At December 31, 2014, all $1.8 billion of goodwill was allocated to the retail brokerage reporting unit within the trading and investing segment. At December 31, 2013 the Company’s trading and investing segment had two reporting units: market making and retail brokerage.

At the end of June 2013, the Company decided to exit its market making business. Based on this decision in the second quarter of 2013, the Company conducted an interim goodwill impairment test for the market making reporting unit, using the expected sale structure of the market making business. This structure assumed a shorter period of cash flows related to an order flow arrangement, compared to prior estimates of fair value. Based on the results of the first step of the goodwill impairment test, the Company determined that the carrying value of the market making reporting unit, including goodwill, exceeded the fair value for that reporting unit as of June 30, 2013. The Company proceeded to the second step of the goodwill impairment test to measure the amount of goodwill impairment. As a result of the evaluation, it was determined that the entire carrying amount of goodwill allocated to the market making reporting unit was impaired, and the Company recognized a $142 million impairment of goodwill during the second quarter of 2013.

For both the years ended December 31, 2014 and 2013, the Company elected to perform a qualitative analysis for the retail brokerage reporting unit to determine whether it was more likely than not that the fair value was less than the carrying value. As a result of these assessments, the Company determined that it was not necessary to perform a quantitative impairment test and concluded that goodwill assigned to the retail brokerage reporting unit was not impaired at both December 31, 2014 and 2013.

At December 31, 2014 and 2013, goodwill was net of accumulated impairment losses of $142 million related to the trading and investing segment and $101 million related to the balance sheet management segment. At December 31, 2012, goodwill was net of accumulated impairment losses of $101 million related to the balance sheet management segment.

Other Intangibles, Net

In the second quarter of 2013, pursuant to the Company's decision to exit the market making business, $21 million of other intangible assets related to the market making reporting unit were reclassified as held-for-sale. These held-for-sale intangible assets have been included in the other assets line item in the consolidated balance sheet at December 31, 2013. For additional information on the market making business, see Note 2—Disposition. The following table outlines the Company's other intangible assets with finite lives consisting of customer lists, which are amortized on an accelerated basis (dollars in millions):

	Customer Lists				
	Weighted Average Original Useful Life (Years)	Weighted Average Remaining Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Amount
December 31, 2014	20	11	$ 435	$ (241)	$ 194
December 31, 2013	20	12	$ 435	$ (219)	$ 216

Assuming no future impairments of customer lists or additional acquisitions or dispositions, the following table presents the Company's future annual amortization expense (dollars in millions):

Years ending December 31,		
2015	$	20
2016		20
2017		19
2018		19
2019		18
Thereafter		98
Total future amortization expense	$	194

NOTE 11—OTHER ASSETS

Other assets consisted of the following at December 31, 2014 and 2013 (dollars in millions):

	December 31,	
	2014	2013
Deferred tax assets, net	$ 951	$ 1,239
Deposits paid for securities borrowed	474	536
Held-for-sale assets[1]	—	177
Other[2]	1,158	869
Total other assets	$ 2,583	$ 2,821

(1) Represents assets related to the market making business, which were classified as held-for-sale at December 31, 2013.
(2) Includes accrued interest receivable, bank and brokerage operational related receivables, derivative assets, REO and repossessed assets, third party loan servicing receivable, other prepaids and other assets.

NOTE 12—DEPOSITS

Deposits are summarized as follows (dollars in millions):

	Amount		Weighted-Average Rate	
	December 31,		December 31,	
	2014	2013	2014	2013
Sweep deposits[1]	$ 19,119	$ 19,592	0.03%	0.04%
Complete savings deposits	3,753	4,303	0.01%	0.01%
Checking deposits	1,137	1,098	0.03%	0.03%
Other money market and savings deposits	833	914	0.01%	0.01%
Time deposits[2]	48	64	0.50%	0.64%
Total deposits[3]	$ 24,890	$ 25,971	0.03%	0.03%

(1) A sweep product transfers brokerage customer balances to banking subsidiaries, which hold these funds as customer deposits in FDIC insured demand deposit and money market deposit accounts.
(2) Time deposits represent certificates of deposit and brokered certificates of deposit.
(3) As of December 31, 2014 and 2013, the Company had $141 million and $129 million in non-interest bearing deposits, respectively.

At December 31, 2014, scheduled maturities of time deposits were as follows (dollars in millions):

Years ending December 31,	
2015	$ 33
2016	7
2017	4
2018	3
2019	1
Thereafter	—
Subtotal	48
Unamortized discount, net	—
Total time deposits	$ 48

Scheduled maturities of certificates of deposit with denominations greater than or equal to $100,000, and greater than or equal to $250,000, which is the FDIC deposit insurance coverage limit, were as follows (dollars in millions):

	>= $100,000		>= $250,000	
	December 31,		December 31,	
	2014	2013	2014	2013
Three months or less	$ 1	$ 1	$ —	$ —
Three through six months	1	2	—	—
Six through twelve months	2	2	—	—
Over twelve months	2	3	1	1
Total certificates of deposit	$ 6	$ 8	$ 1	$ 1

NOTE 13—SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, FHLB ADVANCES AND OTHER BORROWINGS

Securities sold under agreements to repurchase, FHLB advances and other borrowings at December 31, 2014 and 2013 are shown in the following table (dollars in millions):

		FHLB Advances and Other Borrowings			
	Repurchase Agreements(1)	FHLB Advances	Other	Total	Weighted Average Interest Rate
Due within one year	$ 3,022	$ 270	$ —	$ 3,292	0.35%
Due between one and two years	350	250	—	600	0.60%
Due between two and three years	300	400	—	700	0.68%
Thereafter	—	—	428	428	2.92%
Subtotal	3,672	920	428	5,020	0.64%
Fair value hedge adjustments	—	21	—	21	
Deferred costs	—	(70)	—	(70)	
Total other borrowings at December 31, 2014	$ 3,672	$ 871	$ 428	$ 4,971	0.64%
Total other borrowings at December 31, 2013	$ 4,543	$ 851	$ 428	$ 5,822	0.72%

(1) The maximum amount at any month end for repurchase agreements was $4.9 billion and $4.6 billion for years ended December 31, 2014 and 2013, respectively.

Securities Sold Under Agreements to Repurchase

Repurchase agreements are collateralized by fixed- and variable-rate mortgage-backed securities or investment grade securities. The counterparties retain possession of the securities collateralizing the repurchase agreements until maturity of the repurchase agreement. At December 31, 2014, there were no counterparties with whom the Company’s amount of risk exceeded 10% of its shareholders’ equity. During the year ended December 31, 2014, the decrease in securities sold under agreements to repurchase was primarily due to the scheduled expiration of $600 million of repurchase agreements. In addition, the Company paid down in advance of maturity $100 million of its fixed-rate repurchase agreements and recorded $12 million in losses on early extinguishment of debt. During both years ended December 31, 2013 and 2012, the Company paid down in advance of maturity $100 million of its fixed-rate repurchase agreements and recorded losses on early extinguishment of debt of less than $1 million and $8 million, respectively.

Below is a summary of repurchase agreements and collateral associated with the repurchase agreements at December 31, 2014 (dollars in millions):

			Collateral	
	Repurchase Agreements		U.S. Government Sponsored Enterprise Obligations	
Contractual Maturity	Weighted Average Interest Rate	Amount	Amortized Cost	Fair Value
Up to 30 days	0.27%	$ 1,850	$ 1,916	$ 1,929
30 to 90 days	0.39%	155	161	163
Over 90 days	0.64%	1,667	1,729	1,753
Total	0.44%	$ 3,672	$ 3,806	$ 3,845

FHLB Advances and Other Borrowings

FHLB Advances—The Company had $750 million in floating-rate and $170 million in fixed-rate FHLB advances at both December 31, 2014 and 2013. The floating-rate advances adjust quarterly based on LIBOR. During the year ended December 31, 2012, the Company paid down in advance of maturity $1.0 billion of its FHLB advances and recorded $69 million in losses on the early extinguishment of debt. The Company did not have any similar transactions for the years ended December 31, 2014 and 2013.

As a condition of its membership in the FHLB Atlanta, the Company is required to maintain a FHLB stock investment currently equal to the lesser of: a percentage of 0.09% of total Bank assets; or a dollar cap amount of $15 million. Additionally, the Bank must maintain an Activity Based Stock investment which is currently equal to 4.5% of the Bank's outstanding advances at the time of borrowing. The Company had an investment in FHLB stock of $88 million and $61 million at December 31, 2014 and 2013, respectively. The Company must also maintain qualified collateral as a percent of its advances, which varies based on the collateral type, and is further adjusted by the outcome of the most recent annual collateral audit and by FHLB's internal ranking of the Bank's creditworthiness. These advances are secured by a pool of mortgage loans and mortgage-backed securities. At December 31, 2014 and 2013, the Company pledged loans with a lendable value of $3.7 billion and $3.9 billion, respectively, of the one- to four-family and home equity loans as collateral in support of both its advances and unused borrowing lines.

Other Borrowings—Prior to 2008, ETBH raised capital through the formation of trusts, which sold trust preferred securities in the capital markets. The capital securities must be redeemed in whole at the due date, which is generally 30 years after issuance. Each trust issued Floating Rate Cumulative Preferred Securities ("trust preferred securities"), at par with a liquidation amount of $1,000 per capital security. The trusts used the proceeds from the sale of issuances to purchase Floating Rate Junior Subordinated Debentures ("subordinated debentures") issued by ETBH, which guarantees the trust obligations and contributed proceeds from the sale of its subordinated debentures to E*TRADE Bank in the form of a capital contribution. The most recent issuance of trust preferred securities occurred in 2007.

The face values of outstanding trusts at December 31, 2014 are shown below (dollars in millions):

Trusts	Face Value	Maturity Date	Annual Interest Rate
ETBH Capital Trust II	$ 5	2031	10.25%
ETBH Capital Trust I	20	2031	3.75% above 6-month LIBOR
ETBH Capital Trust V, VI, VIII	51	2032	3.25%-3.65% above 3-month LIBOR
ETBH Capital Trust VII, IX—XII	65	2033	3.00%-3.30% above 3-month LIBOR
ETBH Capital Trust XIII—XVIII, XX	77	2034	2.45%-2.90% above 3-month LIBOR
ETBH Capital Trust XIX, XXI, XXII	60	2035	2.20%-2.40% above 3-month LIBOR
ETBH Capital Trust XXIII—XXIV	45	2036	2.10% above 3-month LIBOR
ETBH Capital Trust XXV—XXX	110	2037	1.90%-2.00% above 3-month LIBOR
Total	$ 433		

NOTE 14—CORPORATE DEBT

Corporate debt at December 31, 2014 and 2013 is outlined in the following table (dollars in millions):

	Face Value	Discount	Net
December 31, 2014			
Interest-bearing notes:			
6 3/8% Notes, due 2019	$ 800	$ (5)	$ 795
5 3/8% Notes, due 2022	540	(7)	533
Total interest-bearing notes	1,340	(12)	1,328
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	38	—	38
Total corporate debt	$ 1,378	$ (12)	$ 1,366

	Face Value	Discount	Net
December 31, 2013			
Interest-bearing notes:			
6 3/4% Notes, due 2016	$ 435	$ (4)	$ 431
6% Notes, due 2017	505	(4)	501
6 3/8% Notes, due 2019	800	(6)	794
Total interest-bearing notes	1,740	(14)	1,726
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	42	—	42
Total corporate debt	$ 1,782	$ (14)	$ 1,768

6 3/8% Notes

In November 2012, the Company issued an aggregate principal amount of $800 million in 6 3/8% Notes, due November 2019. Interest is payable semi-annually and the notes may be called by the Company beginning November 15, 2015 at a premium, which declines over time. The Company used the net proceeds from the issuance of the 6 3/8% Notes to redeem all of its outstanding 7 7/8% Notes, due December 2015 and 12 1/2% Springing Lien Notes, due November 2017, including paying the associated redemption premiums, accrued interest and related fees and expenses. The Company recorded $257 million in losses on early extinguishment of debt related to the redemption of the 7 7/8% Notes and 12 1/2% Springing Lien Notes for the year ended December 31, 2012.

5 3/8% Notes

In November 2014, the Company issued an aggregate principal amount of $540 million in 5 3/8% Notes, due November 2022. Interest is payable semi-annually and the notes may be called by the Company beginning November 15, 2017 at a premium, which declines over time. The Company used the net proceeds from the issuance of the 5 3/8% Notes, along with approximately $460 million of existing cash, to redeem all of its outstanding 6 3/4% Notes, due May 2016 and 6% Notes, due November 2017, including paying the associated redemption premiums, accrued interest and related fees and expenses. The Company recorded $59 million in losses on early extinguishment of debt related to the redemption of the 6 3/4% Notes and 6% Notes for the year ended December 31, 2014.

0% Convertible Debentures

In 2009, the Company issued an aggregate principal amount of $1.7 billion in Class A convertible debentures and $2 million in Class B convertible debentures (collectively convertible debentures or 0% Convertible debentures) of non-interest-bearing notes due August 2019, in exchange for $1.3 billion principal of the 12 1/2% Springing Lien Notes and $0.4 billion principal of the 8% Notes, due June 2011.

The Class A convertible debentures are convertible into the Company’s common stock at a conversion rate of $10.34 per $1,000 principal amount of Class A convertible debentures and the Class B convertible debentures are convertible into the Company’s common stock at a conversion rate of $15.51 per $1,000 principal amount of Class B convertible debentures. The holders of the convertible debentures may convert all or any portion of the debentures at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. At December 31, 2014, a cumulative total of $1.7 billion of the Class A convertible debentures and $2 million of the Class B convertible debentures had been converted into 164.6 million shares and 0.1 million shares, respectively, of the Company’s common stock.

Credit Facility

In November 2014, the Company entered into a $200 million senior secured revolving credit facility that expires in November 2017. The Company has the ability to borrow against the credit facility for working capital and general corporate purposes. The credit facility contains certain maintenance covenants, including the requirement for the parent company to maintain unrestricted cash of $100 million. At December 31, 2014, there was no outstanding balance under this credit facility.

Ranking and Subsidiary Guarantees

All of the Company’s notes rank equal in right of payment with all of the Company’s existing and future unsubordinated indebtedness and rank senior in right of payment to all its existing and future subordinated indebtedness. However, the notes rank effectively junior to the Company's secured indebtedness to the extent of the collateral securing such indebtedness, including any debt drawn under the Company's $200 million senior secured revolving credit facility.

In June 2011, certain of the Company’s subsidiaries issued guarantees on the 0% Convertible debentures. E*TRADE Bank and E*TRADE Securities LLC, among others, did not issue such guarantees.

Corporate Debt Covenants

The Company’s corporate debt and credit facility described above have terms which include financial maintenance covenants. At December 31, 2014, the Company was in compliance with all such maintenance covenants.

Future Maturities of Corporate Debt

Scheduled principal payments of corporate debt at December 31, 2014 were as follows (dollars in millions):

Years ending December 31,	
2015	$ —
2016	—
2017	—
2018	—
2019	800
Thereafter	578
Total future principal payments of corporate debt	1,378
Unamortized discount	(12)
Total corporate debt	$ 1,366

NOTE 15—OTHER LIABILITIES

Other liabilities consisted of the following at December 31, 2014 and 2013 (dollars in millions):

	December 31, 2014	December 31, 2013
Deposits received for securities loaned	$ 1,649	$ 1,050
Held-for-sale liabilities(1)	—	107
Other(2)	824	396
Total other liabilities	$ 2,473	$ 1,553

(1) Represents liabilities related to the market making business, which was classified as held-for-sale at December 31, 2013.
(2) Includes accounts payable, accrued expenses, bank and brokerage operational related payables, derivative liabilities, financing obligations, income tax liabilities and other liabilities.

NOTE 16—INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012 were as follows (dollars in millions):

	Year Ended December 31, 2014	2013	2012
Current:			
Federal	$ —	$ —	$ —
State	4	3	3
Foreign	—	—	—
Total current	4	3	3
Deferred:			
Federal	152	127	(137)
State	3	(20)	—
Foreign	—	—	—
Total deferred	155	107	(137)
Non-current tax expense (benefit)	—	(1)	116
Income tax expense (benefit)	$ 159	$ 109	$ (18)

Non-current tax expense (benefit) relates to tax expense (benefit) associated with the reserves for uncertain tax positions. The following table presents the components of income (loss) before income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31, 2014	2013	2012
Domestic	$ 438	$ 186	$ (135)
Foreign	14	9	4
Income (loss) before income tax expense (benefit)	$ 452	$ 195	$ (131)

Unrecognized Tax Benefits

The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Year Ended December 31,		
	2014	2013	2012
Unrecognized tax benefits, beginning of period	$ 333	$ 492	$ 377
Additions based on tax positions related to prior years	12	10	131
Additions based on tax positions related to current year	—	—	8
Reductions based on tax positions related to prior years	(14)	(163)	(23)
Settlements with taxing authorities	—	(5)	—
Statute of limitations lapses	(1)	(1)	(1)
Unrecognized tax benefits, end of period	$ 330	$ 333	$ 492

Unrecognized tax benefits decreased $3 million to $330 million during the year ended December 31, 2014. At December 31, 2014, $270 million (net of federal benefits on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods.

In 2012, the Internal Revenue Service sent an examination notification to the Company related to its 2007, 2009 and 2010 federal tax returns. While the Company cannot predict the outcome of the examination, it believes that adequate provision has been made for any of the Company's uncertain tax positions. Uncertain tax positions are only recognized to the extent they satisfy the accounting for uncertain tax positions criteria included in the income taxes accounting guidance, which states that in order to recognize an uncertain tax position it must be more likely than not that it will be sustained upon examination. For uncertain tax positions, tax benefit is recognized for positions in which it is more than fifty percent likely of being sustained on effective settlement.

The following table summarizes the tax years that are either currently under examination or remain open under the statute of limitations and subject to examination by the major tax jurisdictions in which the Company operates:

Jurisdiction	Open Tax Years
Hong Kong	2008-2014
United Kingdom	2012-2014
United States	2004-2014
Various states[1]	2007-2014

(1) Major state tax jurisdictions include California, Georgia, Illinois, New Jersey, New York and Virginia.

It is reasonably possible that the Company's unrecognized tax benefits could be reduced by as much as $151 million within the next twelve months as a result of settlements of certain examinations or expiration of statutes of limitations.

The Company's practice is to recognize interest and penalties, if any, related to income tax matters in income tax expense. The Company has total reserves for interest and penalties of $21 million and $20 million as of December 31, 2014 and 2013, respectively. The tax expense for the year ended December 31, 2014 includes an increase in the accrual for interest and penalties of $1 million, principally related to state taxes.

Deferred Taxes and Valuation Allowance

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement and tax return purposes. The temporary differences and tax carryforwards that created deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 are summarized in the following table (dollars in millions):

	December 31,	
	2014	2013
Deferred tax assets:		
Net operating losses	$ 632	$ 572
Reserves and allowances, net	601	891
Mark to market	110	125
Deferred compensation	43	36
Tax credits	37	31
Basis differences in investments	9	12
Other	1	7
Total deferred tax assets	1,433	1,674
Valuation allowance	(91)	(82)
Total deferred tax assets, net of valuation allowance	1,342	1,592
Deferred tax liabilities:		
Depreciation and amortization	(387)	(353)
Other	(4)	—
Total deferred tax liabilities	(391)	(353)
Net deferred tax asset	$ 951	$ 1,239

The Company is required to establish a valuation allowance for deferred tax assets and record a corresponding increase to income tax expense if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized. If the Company were to conclude that a valuation allowance was required, the resulting loss could have a material adverse effect on its financial condition and results of operations. As of December 31, 2014, the Company did not establish a valuation allowance against its federal deferred tax assets as it believes that it is more likely than not that all of these assets will be realized. Approximately 40% of existing federal deferred tax assets is not related to net operating losses and therefore, have no expiration date. The Company ended 2014 with $1,937 million of gross federal net operating losses, the majority of which will expire within the next 13 years. The increase in the net operating losses deferred tax asset was primarily driven by additional tax deductions related to prior years.

The Company's evaluation of the need for a valuation allowance focused on identifying significant, objective evidence that it will be able to realize its deferred tax assets in the future. The Company determined that its expectations regarding future earnings are objectively verifiable due to various factors. One factor is the consistent profitability of the Company's core business, the trading and investing segment, which has generated substantial income for each of the last 11 years, including through uncertain economic and regulatory environments. The core business is driven by brokerage customer activity and includes trading, brokerage related cash, margin lending, retirement and investing, and other brokerage related activities. These activities drive variable expenses that correlate to the volume of customer activity, which has resulted in stable, ongoing profitability.

Another factor is the mitigation of losses in the balance sheet management segment, which generated a large net operating loss in 2007 caused by the crisis in the residential real estate and credit markets. Much of this loss came from the sale of the asset-backed securities portfolio and credit losses from the mortgage loan portfolio. The Company no longer holds any of those asset-backed securities and shut down mortgage loan acquisition activities in 2007. In effect, the key business activities that led to the generation of the deferred tax assets were shut down over seven years ago. In addition, we have realized the benefits of various credit loss mitigation activities and improving economic conditions, including home price improvement related to our loan portfolio. As a result, the losses have continued to decline significantly and the balance sheet management segment has been profitable since 2012.

The Company's valuation allowance for deferred tax assets increased $9 million to $91 million at December 31, 2014. The principal components of the deferred tax assets for which a valuation allowance has been established include the following state and foreign country net operating loss carryforwards and charitable contributions which have a limited carryforward period:

- At December 31, 2014, the Company had certain gross foreign country net operating loss carryforwards of $121 million and other foreign country temporary differences of approximately $19 million for which a deferred tax asset of approximately $32 million was established. The foreign net operating losses represent the foreign tax loss carryforwards in numerous foreign countries, the vast majority of which are not subject to expiration. In most of these foreign countries, the Company has historical tax losses; accordingly, the Company has provided a valuation allowance of $32 million against such deferred tax assets at December 31, 2014.
- At December 31, 2014, the Company had gross state net operating loss carryforwards that expire between 2015 and 2033 in several states of $3.8 billion, most of which are subject to change by corresponding changes in apportionment. At December 31, 2014, we had total state deferred tax assets of approximately $143 million that related to the Company's state net operating loss carryforwards and temporary differences with a valuation allowance of $48 million against such deferred tax assets.
- At December 31, 2014, the Company had charitable contribution carryforwards of $27 million that expire between 2015 and 2017. A deferred tax asset of approximately $11 million was established with a corresponding $11 million valuation allowance as it is more likely than not that these contributions will expire unused.

The Company does not intend to permanently reinvest any undistributed earnings and profits in foreign subsidiaries. As a result, the Company has fully recorded income taxes on those earnings at December 31, 2014.

Effective Tax Rate

The effective tax rate differed from the federal statutory rate as summarized in the following table for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
Federal statutory rate	35.0 %	35.0 %	(35.0)%
State income taxes, net of federal tax benefit	2.0	2.8	(11.8)
Difference between statutory rate and foreign effective tax rate	(1.0)	(1.4)	(1.1)
Tax exempt income	(0.1)	(0.3)	(0.4)
Disallowed interest expense	—	—	10.3
Change in valuation allowance	2.2	1.1	6.9
2009 Debt Exchange	—	—	(19.7)
Tax credits	(0.6)	(1.8)	(12.2)
California state tax legislative changes	—	—	19.2
Estimated reserve for uncertain tax positions	(0.3)	(2.6)	9.1
Deferred tax adjustments	(1.6)	4.5	8.4
Disallowed losses on early extinguishment of debt	—	—	7.4
Tax on undistributed earnings and profits in certain foreign subsidiaries	1.1	2.4	2.5
New York state tax legislative changes	(1.8)	—	—
Tax impact of exit of market making business	—	16.4	—
Other	0.3	(0.2)	2.4
Effective tax rate	35.2 %	55.9 %	(14.0)%

Tax Ownership Change

During the third quarter of 2009, the Company exchanged $1.7 billion principal amount of interest-bearing debt for an equal principal amount of non-interest-bearing convertible debentures. Subsequent to the 2009 Debt Exchange, $592 million and $129 million debentures were converted into 57 million and 13 million shares of common stock during the third and fourth quarters of 2009, respectively. As a result of these conversions, the Company believes it experienced a tax ownership change during the third quarter of 2009.

As of the date of the ownership change, the Company had federal NOLs available to carryforward of approximately $1,886 million. This amount includes $480 million in federal NOLs that were recorded in the third quarter of 2012 due to amended tax returns filed related primarily to additional tax deductions on the 2009 Debt Exchange and additional tax losses on bad debts. Section 382 imposes an annual limitation on the use of a corporation's NOLs, certain recognized built-in losses and other carryovers after an "ownership change" occurs. Section 382 rules governing when a change in ownership occurs are complex and subject to interpretation; however, an ownership change generally occurs when there has been a cumulative change in the stock ownership of a corporation by certain "5% shareholders" of more than 50 percentage points over a rolling three-year period.

Section 382 imposes an annual limitation on the amount of post-ownership change taxable income a corporation may offset with pre-ownership change NOLs. In general, the annual limitation is determined by multiplying the value of the corporation's stock immediately before the ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Any unused portion of the annual limitation is available for use in future years until such NOLs are scheduled to expire (in general, NOLs may be carried forward 20 years). In addition, the limitation may, under certain circumstances, be increased or decreased by built-in gains or losses, respectively, which may be present with respect to assets held at the time of the ownership change that are recognized in the five-year period (one-year for loans) after the ownership change. The use of NOLs arising after the date of an ownership change would not be affected unless a corporation experienced an additional ownership change in a future period.

The Company believes the tax ownership change will extend the period of time it will take to fully utilize its pre-ownership change NOLs, but will not limit the total amount of pre-ownership change federal NOLs it can utilize. The Company's updated estimate is that it will be subject to an overall annual limitation on the use of its pre-ownership change NOLs of approximately $194 million. The Company's overall pre-ownership change federal NOLs, which were approximately $1,886 million, have a statutory carryforward period of 20 years (the majority of which expire in 13 years). As a result, the Company believes it will be able to fully utilize these NOLs in future periods.

The Company's ability to utilize the pre-ownership change NOLs is dependent on its ability to generate sufficient taxable income over the duration of the carryforward periods and will not be impacted by its ability or inability to generate taxable income in an individual year.

NOTE 17—SHAREHOLDER'S EQUITY

The activity in shareholders' equity during the year ended December 31, 2014 is summarized in the following table (dollars in millions):

	Common Stock / Additional Paid-In Capital	Accumulated Deficit / Other Comprehensive Loss	Total
Beginning balance, December 31, 2013	$ 7,331	$ (2,475)	$ 4,856
Net income	—	293	293
Net change from available-for-sale securities	—	167	167
Net change from cash flow hedging instruments	—	37	37
Other[(1)]	22	—	22
Ending balance, December 31, 2014	$ 7,353	$ (1,978)	$ 5,375

(1) Other includes employee share-based compensation and conversions of convertible debentures.

Accumulated Other Comprehensive Loss

The following tables present after-tax changes in each component of accumulated other comprehensive loss for the years ended December 31, 2014, 2013 and 2012 (dollars in millions):

	Available-for-sale Securities	Cash Flow Hedging Instruments	Foreign Currency Translation	Total
Beginning balance, December 31, 2013	$ (160)	$ (298)	$ 5	$ (453)
Other comprehensive income (loss) before reclassifications	193	(39)	—	154
Amounts reclassified from accumulated other comprehensive loss	(26)	76	—	50
Net change	167	37	—	204
Ending balance, December 31, 2014	$ 7	$ (261)	$ 5	$ (249)

	Available-for-sale Securities	Cash Flow Hedging Instruments	Foreign Currency Translation	Total
Beginning balance, December 31, 2012	$ 137	$ (452)	$ 5	$ (310)
Other comprehensive income (loss) before reclassifications	(260)	67	—	(193)
Amounts reclassified from accumulated other comprehensive loss	(37)	87	—	50
Net change	(297)	154	—	(143)
Ending balance, December 31, 2013	$ (160)	$ (298)	$ 5	$ (453)

	Available-for-sale Securities	Cash Flow Hedging Instruments	Foreign Currency Translation	Total
Beginning balance, December 31, 2011	$ 68	$ (458)	$ 3	$ (387)
Other comprehensive income (loss) before reclassifications	197	(72)	2	127
Amounts reclassified from accumulated other comprehensive loss	(128)	78	—	(50)
Net change	69	6	2	77
Beginning balance, December 31, 2012	$ 137	$ (452)	$ 5	$ (310)

The following table presents the income statement line items impacted by reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2014 and 2013 (dollars in millions):

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss		Affected Line Items in the Consolidated Statement of Income (Loss)
	Year Ended December 31,		
	2014	2013	
Available-for-sale securities:			
	$ 42	$ 60	Gains on loans and securities, net
	(16)	(23)	Tax expense (benefit)
	$ 26	$ 37	Reclassification into earnings, net
Cash flow hedging instruments:			
	$ —	$ 8	Operating interest income
	(125)	(147)	Operating interest expense
	(125)	(139)	Reclassification into earnings, before tax
	49	52	Tax expense (benefit)
	$ (76)	$ (87)	Reclassification into earnings, net

Preferred Stock

The Company has 1 million shares authorized in preferred stock. None were issued or outstanding at December 31, 2014 or 2013.

NOTE 18—EARNINGS (LOSS) PER SHARE

The following table presents a reconciliation of basic and diluted earnings (loss) per share (in millions, except share data and per share amounts):

	Year Ended December 31,		
	2014	2013	2012
Basic:			
Net income (loss)	$ 293	$ 86	$ (113)
Basic weighted-average shares outstanding (in thousands)	288,705	286,991	285,748
Basic earnings (loss) per share	$ 1.02	$ 0.30	$ (0.39)
Diluted:			
Net income (loss)	$ 293	$ 86	$ (113)
Basic weighted-average shares outstanding (in thousands)	288,705	286,991	285,748
Effect of dilutive securities:			
Weighted-average convertible debentures (in thousands)	3,999	4,125	—
Weighted-average options and restricted stock issued to employees (in thousands)	1,399	1,473	—
Diluted weighted-average shares outstanding (in thousands)	294,103	292,589	285,748
Diluted earnings (loss) per share	$ 1.00	$ 0.29	$ (0.39)

The Company excluded the following shares from the calculations of diluted earnings (loss) per share for the years ended December 31, 2014, 2013 and 2012 as the effect would have been anti-dilutive (shares in millions):

	Year Ended December 31,		
	2014	2013	2012
Weighted-average shares excluded as a result of the Company's net loss:			
Convertible debentures	N/A	N/A	4.1
Stock options and restricted stock awards and units	N/A	N/A	0.4
Other stock options and restricted stock awards and units	0.5	1.7	2.5
Total	0.5	1.7	7.0

NOTE 19—REGULATORY REQUIREMENTS

Registered Broker-Dealers

The Company's U.S. broker-dealer subsidiaries are subject to the Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934 administered by the SEC and FINRA, which requires the maintenance of minimum net capital. The minimum net capital requirements can be met under either the Aggregate Indebtedness method or the Alternative method. Under the Aggregate Indebtedness method, a broker-dealer is required to maintain minimum net capital of the greater of 6 2/3% of its aggregate indebtedness, as defined, or a minimum dollar amount. Under the Alternative method, a broker-dealer is required to maintain net capital equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions. The method used depends on the individual U.S. broker-dealer subsidiary. The Company's other broker-dealers, including its international broker-dealer subsidiaries located in Europe and Asia, are subject to capital requirements determined by their respective regulators.

At December 31, 2014 and 2013, all of the Company's broker-dealer subsidiaries met minimum net capital requirements. The tables below summarize the minimum excess capital requirements for the Company's broker-dealer subsidiaries at December 31, 2014 and 2013 (dollars in millions):

	Required Net Capital	Net Capital	Excess Net Capital
December 31, 2014:			
E*TRADE Clearing LLC(1)	$ 170	$ 795	$ 625
E*TRADE Securities LLC(1)(2)	—	459	459
Other broker-dealers	1	19	18
Total	$ 171	$ 1,273	$ 1,102
December 31, 2013:			
E*TRADE Clearing LLC(1)	$ 144	$ 715	$ 571
E*TRADE Securities LLC(1)	—	261	261
G1 Execution Services, LLC(3)	1	22	21
Other broker-dealers	2	22	20
Total	$ 147	$ 1,020	$ 873

(1) Elected to use the Alternative method to compute net capital. The net capital requirement was $250,000 for E*TRADE Securities LLC for both periods presented.
(2) E*TRADE Securities LLC was moved from under E*TRADE Bank in February 2015 and subsequently paid a dividend of $434 million to the parent company.
(3) Elected to use the Aggregate Indebtedness method to compute net capital. G1 Execution Services, LLC is the Company's market maker and was held-for-sale at December 31, 2013. The sale of G1 Execution Services, LLC was completed on February 10, 2014.

Banking

E*TRADE Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on E*TRADE Bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, E*TRADE Bank must meet specific capital guidelines that involve quantitative measures of E*TRADE Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. In addition, E*TRADE Bank may not pay dividends to the parent company without approval from its regulators and any loans by E*TRADE Bank to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements. E*TRADE Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require E*TRADE Bank to meet minimum total capital, Tier 1 capital and Tier 1 leverage ratios. As shown in the table below, at both December 31, 2014 and 2013, E*TRADE Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. However, events beyond management's control, such as deterioration in credit markets, could adversely affect future earnings and E*TRADE Bank's ability to meet future capital requirements and ability to pay dividends to the parent company. E*TRADE Bank's actual and required capital amounts and ratios at December 31, 2014 and 2013 are presented in the table below (dollars in millions):

	Actual		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Excess Capital
December 31, 2014:					
Total capital	$ 4,772	26.93%	$ 1,772	10.00%	$ 3,000
Tier 1 capital	$ 4,548	25.67%	$ 1,063	6.00%	$ 3,485
Tier 1 leverage	$ 4,548	10.61%	$ 2,143	5.00%	$ 2,405
December 31, 2013:					
Total capital	$ 4,331	24.25%	$ 1,786	10.00%	$ 2,545
Tier 1 capital	$ 4,105	22.98%	$ 1,072	6.00%	$ 3,033
Tier 1 leverage	$ 4,105	9.51%	$ 2,158	5.00%	$ 1,947

NOTE 20—LEASE ARRANGEMENTS

The Company has non-cancelable operating leases for facilities through 2025. Future minimum lease payments and sublease proceeds under these leases with initial or remaining terms in excess of one year, including leases involved in facility restructurings, are as follows (dollars in millions):

	Operating Lease Commitments
Years ending December 31,	
2015	$ 25
2016	25
2017	24
2018	21
2019	19
Thereafter	31
Total future minimum lease payments	$ 145
Sublease proceeds	(4)
Net lease commitments	$ 141

Certain leases contain provisions for renewal options and rent escalations based on increases in certain costs incurred by the lessor. Rent expense, net of sublease income, was $21 million, $22 million and $23 million for the years ended December 31, 2014, 2013 and 2012, respectively. Rent expense, which is recorded in the occupancy and equipment line item in the consolidated statement of income (loss), excludes costs related to leases involved in facility restructurings, which are recorded in the facility restructuring and other exit activities line item in the consolidated statement of income (loss).

On October 31, 2014, the Company executed a sale-leaseback transaction on its office located in Alpharetta, Georgia. See Note 9—Property and Equipment, Net for more information.

NOTE 21—COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

Legal Matters

Litigation Matters

On October 27, 2000, Ajaxo, Inc. ("Ajaxo") filed a complaint in the Superior Court for the State of California, County of Santa Clara. Ajaxo sought damages and certain non-monetary relief for the Company’s alleged breach of a non-disclosure agreement with Ajaxo pertaining to certain wireless technology that Ajaxo offered the Company as well as damages and other relief against the Company for their alleged misappropriation of Ajaxo’s trade secrets. Following a jury trial, a judgment was entered in 2003 in favor of Ajaxo against the Company for $1 million for breach of the Ajaxo non-disclosure agreement. Although the jury found in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets, the trial court subsequently denied Ajaxo’s requests for additional damages and relief. On December 21, 2005, the California Court of Appeal affirmed the above-described award against the Company for breach of the nondisclosure agreement but remanded the case to the trial court for the limited purpose of determining what, if any, additional damages Ajaxo may be entitled to as a result of the jury’s previous finding in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets. Although the Company paid Ajaxo the full amount due on the above-described judgment, the case was remanded back to the trial court, and on May 30, 2008, a jury returned a verdict in favor of the Company denying all claims raised and demands for damages against the Company. Following the trial court’s entry of judgment in favor of the Company on September 5, 2008, Ajaxo filed post-trial motions for vacating this entry of judgment and requesting a new trial. The trial court denied these motions. On December 2, 2008, Ajaxo filed a notice of appeal with the Court of Appeal of the State of California for the Sixth District. On August 30, 2010, the Court of Appeal affirmed the trial court’s verdict in part and reversed the verdict in part, remanding the case. The Company petitioned the Supreme Court of California for review of the Court of Appeal decision. On December 16, 2010, the California Supreme Court denied the Company’s petition for review and remanded for further proceedings to the trial court. The testimonial phase of the third trial in this matter concluded on June 12, 2012. By order dated May 28, 2014, the Court determined to conduct a second phase of this bench trial to allow Ajaxo to attempt to prove entitlement to additional royalties. Hearings in phase two of the trial concluded January 8, 2015, and final written closing statements will be submitted March 16, 2015. The Company will continue to defend itself vigorously.

On May 16, 2011, Droplets Inc., the holder of two patents pertaining to user interface servers, filed a complaint in the U.S. District Court for the Eastern District of Texas against E*TRADE Financial Corporation, E*TRADE Securities LLC, E*TRADE Bank and multiple other unaffiliated financial services firms. Plaintiff contends that the defendants engaged in patent infringement under federal law. Plaintiff seeks unspecified damages and an injunction against future infringements, plus royalties, costs, interest and attorneys’ fees. On September 30, 2011, the Company and several co-defendants filed a motion to transfer the case to the Southern District of New York. Venue discovery occurred throughout December 2011. On January 1, 2012, a new judge was assigned to the case. On March 28, 2012, a change of venue was granted and the case was transferred to the United States District Court for the Southern District of New York. The Company filed its answer and counterclaim on June 13, 2012 and plaintiff moved to dismiss the counterclaim. The Company filed a motion for summary judgment. Plaintiffs sought to change venue back to the Eastern District of Texas on the theory that this case is one of several matters that should be consolidated in a single multi-district litigation. On December 12, 2012, the Multidistrict Litigation Panel denied the transfer of this action to Texas. By opinion dated April 4, 2013, the Court denied defendants’ motion for summary judgment and plaintiff’s motion to dismiss the counterclaims. The Court issued its order on claim construction on October 22, 2013, and by order dated January 28, 2014, the Court adopted the defendants' proposed claims construction. On March 25, 2014, the Court granted plaintiff leave to amend its complaint to add a newly-issued patent, but stayed all litigation pertaining to that patent until a covered business method review could be heard by the Patent and Trademark Appeals Board. The defendants' petitions for covered business method reviews were denied by the Patent and Trademark Appeals Board. Motions for summary judgment were filed in the U.S. District Court in August 2014 and the parties await the decision. The Company will continue to defend itself vigorously in this matter, both in the District Court and at the U.S. Patent and Trademark Office.

Several cases have been filed nationwide involving the April 2007 leveraged buyout ("LBO") of the Tribune Company ("Tribune") by Sam Zell, and the subsequent bankruptcy of Tribune. In William Niese et al. v. A.G. Edwards et al., in Superior Court of Delaware, New Castle County, former Tribune employees and retirees claimed that Tribune was actually insolvent at the time of the LBO and that the LBO constituted a fraudulent transaction that depleted the plaintiffs’ retirement plans, rendering them worthless. E*TRADE Clearing LLC, along with numerous other financial institutions, is a named defendant in this case. One of the defendants removed the action to federal district court in Delaware on July 1, 2011. In Deutsche Bank Trust Company Americas et al. v. Adaly Opportunity Fund et al., filed in the Supreme Court of New York, New York County on June 3, 2011, the Trustees of certain notes issued by Tribune allege wrongdoing in connection with the LBO. In particular the Trustees claim that the LBO constituted a constructive fraudulent transfer under various state laws. G1 Execution Services, LLC (formerly known as E*TRADE Capital Markets, LLC), along with numerous other financial institutions, is a named defendant in this case. In Deutsche Bank et al. v. Ohlson et al., filed in the U.S. District Court for the Northern District of Illinois, noteholders of Tribune asserted claims of constructive fraud and G1 Execution Services, LLC is a named defendant in this case. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna, the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation. In EGI-TRB LLC et al. v. ABN-AMRO et al., filed in the Circuit Court of Cook County Illinois, creditors of Tribune assert fraudulent conveyance claims against multiple shareholder defendants and E*TRADE Clearing LLC is a named defendant in this case. These cases have been consolidated into a multi-district litigation. The Company’s time to answer or otherwise respond to the complaints has been stayed pending further orders of the Court. On September 18, 2013, the Court entered the Fifth Amended Complaint. On September 23, 2013, the Court granted the defendants’ motion to dismiss the individual creditors’ complaint. The individual creditors filed a notice of appeal. The steering committees for plaintiffs and defendants have submitted a joint plan for the next phase of litigation. The next phase of the action will involve individual motions to dismiss. On April 22, 2014, the Court issued its protocols for dismissal motions for those defendants who were "mere conduits" who facilitated the transactions at issue. The motion to dismiss Count I of the Fifth Amended Complaint for failure to state a cause of action was fully briefed on July 2, 2014, and the parties await decision on that motion. The Company will defend itself vigorously in these matters.

On April 30, 2013, a putative class action was filed by John Scranton, on behalf of himself and a class of persons similarly situated, against E*TRADE Financial Corporation and E*TRADE Securities LLC in the Superior Court of California, County of Santa Clara, pursuant to the California procedures for a private Attorney General action. The Complaint alleged that the Company misrepresented through its website that it would always automatically exercise options that were in-the-money by $0.01 or more on expiration date. Plaintiffs allege violations of the California Unfair Competition Law, the California Consumer Remedies Act, fraud, misrepresentation, negligent misrepresentation and breach of fiduciary duty. The case has been deemed complex within the meaning of the California Rules of Court, and a case management conference was held on September 13, 2013. The Company's demurrer and motion to strike the complaint were granted by order dated December 20, 2013. The Court granted leave to amend the complaint. A second amended complaint was filed on January 31, 2014. On March 11, 2014, the Company moved to strike and for a demurrer to the second amended complaint. On October 20, 2014, the Court sustained the Company's demurrer, dismissing four counts of the second amended complaint with prejudice and two counts without prejudice. The plaintiffs filed a third amended complaint on November 10, 2014. The Company filed a third demurrer and motion to strike on December 12, 2014. The Company will continue to defend itself vigorously in this matter.

On April 18, 2014, a putative class action was filed by the City of Providence, Rhode Island against forty-one high frequency trading firms, stock exchanges, market-makers, and other broker-dealers, including the Company, in the U.S. District Court for the Southern District of New York. The Complaint alleges that the high frequency trading firms, certain broker-dealers managing dark pools, and the exchanges manipulated the U.S. Securities markets, and that numerous market-makers and broker-dealers participated in that manipulation by doing business with the high frequency traders. As to the Company, the Complaint alleges violation of Sections 10(b) and 20(a) of the Exchange Act. On May 2, 2014, a similar putative class action was filed by American European Insurance Company against forty-two high frequency trading firms, stock exchanges, market-makers, and other broker-dealers, including the Company, in the U.S. District Court for the Southern District of New York. The action filed by American European Insurance Company made allegations substantially similar to the allegations in the City of Providence complaint. On June 13, 2014, a putative class action was filed by James J. Flynn and Dominic Morelli against twenty-six firms including the Company in the United States District Court for the Southern District of New York. The Flynn Complaint made allegations substantially similar to the allegations in the City of Providence Complaint. The consolidated amended complaint does not identify the Company as a defendant or make any allegations regarding the Company.

In addition to the matters described above, the Company is subject to various legal proceedings and claims that arise in the normal course of business. In each pending matter, the Company contests liability or the amount of claimed damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages, or where investigation or discovery have yet to be completed, the Company is unable to reasonably estimate a range of possible losses on its remaining outstanding legal proceedings; however, the Company believes any losses would not be reasonably likely to have a material adverse effect on the consolidated financial condition or results of operations of the Company.

An unfavorable outcome in any matter could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. In addition, even if the ultimate outcomes are resolved in the Company's favor, the defense of such litigation could entail considerable cost or the diversion of the efforts of management, either of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Regulatory Matters

The securities, futures, foreign currency and banking industries are subject to extensive regulation under federal, state and applicable international laws. From time to time, the Company has been threatened with or named as a defendant in lawsuits, arbitrations and administrative claims involving securities, banking and other matters. The Company is also subject to periodic regulatory audits and inspections. Compliance and trading problems that are reported to regulators, such as the SEC, FINRA, CFTC, NFA or OCC by dissatisfied customers or others are investigated by such regulators, and may, if pursued, result in formal claims being filed against the Company by customers or disciplinary action being taken against the Company or its employees by regulators. Any such claims or disciplinary actions that are decided against the Company could have a material impact on the financial results of the Company or any of its subsidiaries.

During 2012, the Company completed a review of order handling practices and pricing for order flow between E*TRADE Securities LLC and G1 Execution Services, LLC. The Company has implemented changes to its practices and procedures that were recommended during the review. Banking regulators and federal securities regulators were regularly updated during the course of the review and may initiate investigations into the Company's historical practices which could subject it to monetary penalties and cease-and-desist orders, which could also prompt claims by customers of E*TRADE Securities LLC. Any of these actions could materially and adversely affect the Company's broker-dealer businesses. On July 11, 2013, FINRA notified E*TRADE Securities LLC and G1 Execution Services, LLC that it is conducting an examination of both firms' routing practices. The Company is cooperating fully with FINRA in this examination. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna, the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation.

In October 2014, E*TRADE Securities LLC and G1 Execution Services, LLC reached a settlement with the SEC in connection with effecting the sale of certain "penny stock" securities on behalf of three former customers without an applicable exemption from the registration provisions of the federal securities laws during the period 2007 to 2011. Without admitting or denying the SEC's findings, E*TRADE Securities LLC and G1 Execution Services, LLC entered into a settlement pursuant to which they agreed to be censured and consented to an order of the SEC requiring them to cease and desist from committing or causing future violations of the registration provisions of the Securities Act of 1933. Pursuant to the settlement agreement, E*TRADE Securities LLC and G1 Execution Services, LLC agreed to pay approximately $1.6 million in disgorgement and prejudgment interest on commissions and a $1 million penalty.

Insurance

The Company maintains insurance coverage that management believes is reasonable and prudent. The principal insurance coverage it maintains covers commercial general liability; property damage; hardware/software damage; cyber liability; directors and officers; employment practices liability; certain criminal acts against the Company; and errors and omissions. The Company believes that such insurance coverage is adequate for the purpose of its business. The Company’s ability to maintain this level of insurance coverage in the future, however, is subject to the availability of affordable insurance in the marketplace.

Estimated Liabilities

For all legal matters, an estimated liability is established in accordance with the loss contingencies accounting guidance. Once established, the estimated liability is adjusted based on available information when an event occurs requiring an adjustment.

Commitments

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Significant changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future.

The Company’s equity and cost method investments are generally limited liability investments in partnerships, companies and other similar entities, including tax credit partnerships and community development entities, that are not required to be consolidated. The Company had $40 million in unfunded commitments with respect to these investments at December 31, 2014.

At December 31, 2014, the Company had approximately $33 million of certificates of deposit scheduled to mature in less than one year and $169 million of unfunded commitments to extend credit.

Guarantees

In prior periods when the Company sold loans, the Company provided guarantees to investors purchasing mortgage loans, which are considered standard representations and warranties within the mortgage industry. The primary guarantees are that: the mortgage and the mortgage note have been duly executed and each is the legal, valid and binding obligation of the Company, enforceable in accordance with its terms; the mortgage has been duly acknowledged and recorded and is valid; and the mortgage and the mortgage note are not subject to any right of rescission, set-off, counterclaim or defense, including, without limitation, the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto. The Company is responsible for the guarantees on loans sold. If these claims prove to be untrue, the investor can require the Company to repurchase the loan and return all loan purchase and servicing release premiums. Management does not believe the potential liability exposure will have a material impact on the Company’s results of operations, cash flows or financial condition due to the nature of the standard representations and warranties, which have resulted in a minimal amount of loan repurchases.

Prior to 2008, ETBH raised capital through the formation of trusts, which sold trust preferred securities in the capital markets. The capital securities must be redeemed in whole at the due date, which is generally 30 years after issuance. Each trust issued trust preferred securities at par, with a liquidation amount of $1,000 per capital security. The trusts used the proceeds from the sale of issuances to purchase subordinated debentures issued by ETBH.

During the 30-year period prior to the redemption of the trust preferred securities, ETBH guarantees the accrued and unpaid distributions on these securities, as well as the redemption price of the securities and certain costs that may be incurred in liquidating, terminating or dissolving the trusts (all of which would otherwise be payable by the trusts). At December 31, 2014, management estimated that the maximum potential liability under this arrangement, including the current carrying value of the trusts, was equal to approximately $436 million or the total face value of these securities plus dividends, which may be unpaid at the termination of the trust arrangement.

NOTE 22—SEGMENT INFORMATION

The Company reports its operating results in two segments, based on the manner in which its chief operating decision maker evaluates financial performance and makes resource allocation decisions: 1) trading and investing; and 2) balance sheet management. Trading and investing includes retail brokerage products and services; investor-focused banking products; and corporate services. Balance sheet management includes the management of asset allocation; loans previously originated by the Company or purchased from third parties; deposits and customer payables; and credit, liquidity and interest rate risk. The balance sheet management segment utilizes deposits and customer payables and compensates the trading and investing segment via a market-based transfer pricing arrangement, which is eliminated in consolidation.

The Company does not allocate costs associated with certain functions that are centrally-managed to its operating segments. These costs are separately reported in a corporate/other category, along with technology related costs incurred to support centrally-managed functions; restructuring and other exit activities; and corporate debt and corporate investments.

The Company evaluates the performance of its segments based on the segment's income (loss) before income taxes. Financial information for the Company's reportable segments is presented in the following tables (dollars in millions):

	Year Ended December 31, 2014			
	Trading and Investing	Balance Sheet Management	Corporate/ Other	Total
Net operating interest income	$ 632	$ 455	$ 1	$ 1,088
Total non-interest income	683	43	—	726
Total net revenue	1,315	498	1	1,814
Provision for loan losses	—	36	—	36
Total operating expense	766	148	231	1,145
Income (loss) before other income (expense) and income taxes	549	314	(230)	633
Total other income (expense)	—	—	(181)	(181)
Income (loss) before income taxes	$ 549	$ 314	$ (411)	$ 452
Income tax expense				159
Net income				$ 293

	Year Ended December 31, 2013			
	Trading and Investing	Balance Sheet Management	Corporate/ Other	Total
Net operating interest income	$ 540	$ 442	$ —	$ 982
Total non-interest income	677	64	—	741
Total net revenue	1,217	506	—	1,723
Provision for loan losses	—	143	—	143
Total operating expense	883	179	213	1,275
Income (loss) before other income (expense) and income taxes	334	184	(213)	305
Total other income (expense)	—	—	(110)	(110)
Income (loss) before income taxes	$ 334	$ 184	$ (323)	$ 195
Income tax expense				109
Net income				$ 86

	Year Ended December 31, 2012			
	Trading and Investing	Balance Sheet Management	Corporate/ Other	Total
Net operating interest income	$ 641	$ 444	$ —	$ 1,085
Total non-interest income	622	193	—	815
Total net revenue	1,263	637	—	1,900
Provision for loan losses	—	355	—	355
Total operating expense	769	220	173	1,162
Income (loss) before other income (expense) and income taxes	494	62	(173)	383
Total other income (expense)	—	—	(514)	(514)
Income (loss) before income taxes	$ 494	$ 62	$ (687)	$ (131)
Income tax (benefit)				(18)
Net loss				$ (113)

Total other income (expense) included losses on early extinguishment of corporate debt of $59 million and $257 million during the years ended December 31, 2014 and 2012, respectively. For additional information refer to Note 14—Corporate Debt.

Segment Assets

	Trading and Investing	Balance Sheet Management	Corporate/ Other	Total
As of December 31, 2014	$ 12,032	$ 33,075	$ 423	$ 45,530
As of December 31, 2013	$ 10,820	$ 34,784	$ 676	$ 46,280
As of December 31, 2012	$ 9,505	$ 37,306	$ 576	$ 47,387

Assets and total net revenue attributable to international locations were not material for the periods presented. No single customer accounts for greater than 10% of gross revenues for any of the years ended December 31, 2014, 2013 and 2012.

NOTE 23—CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

The following presents the parent company's condensed statement of comprehensive income (loss), balance sheet and statement of cash flows:

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Year Ended December 31,		
	2014	2013	2012
Dividends from subsidiaries	$ 311	$ 193	$ 99
Other revenues	333	281	270
Total net revenue	644	474	369
Total operating expense	421	359	339
Income before other income (expense), income tax benefit, and equity in income of consolidated subsidiaries	223	115	30
Total other income (expense)	(166)	(108)	(434)
Income (loss) before income tax benefit and equity in income of consolidated subsidiaries	57	7	(404)
Income tax benefit	(88)	(76)	(188)
Equity in undistributed income of subsidiaries	148	3	103
Net income (loss)	293	86	(113)
Other comprehensive income (loss)	204	(143)	77
Comprehensive income (loss)	$ 497	$ (57)	$ (36)

CONDENSED BALANCE SHEET
(In millions)

	December 31,	
	2014	2013
ASSETS		
Cash and equivalents	$ 220	$ 406
Property and equipment, net	165	137
Investment in consolidated subsidiaries	5,763	5,445
Receivable from subsidiaries	31	36
Other assets	745	710
Total assets	$ 6,924	$ 6,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Corporate debt	$ 1,366	$ 1,768
Other liabilities	183	110
Total liabilities	1,549	1,878
Total shareholders' equity	5,375	4,856
Total liabilities and shareholders' equity	$ 6,924	$ 6,734

CONDENSED STATEMENT OF CASH FLOWS
(In millions)

	Year Ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ 293	$ 86	$ (113)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	38	40	50
Equity in undistributed income from subsidiaries	(148)	(3)	(103)
Losses on early extinguishment of debt	6	—	137
Other	(44)	(15)	45
Net effect of decrease in other assets	19	15	23
Net effect of decrease in other liabilities	(3)	(60)	(178)
Net cash provided by (used in) operating activities	161	63	(139)
Cash flows from investing activities:			
Capital expenditures for property and equipment	(62)	(24)	(27)
Proceeds from sale of subsidiary	76	—	—
Cash contributions to subsidiaries	(29)	(39)	(26)
Other	—	4	3
Net cash used in investing activities	(15)	(59)	(50)
Cash flows from financing activities:			
Net proceeds from issuance of senior notes	540	—	1,305
Payments on senior and springing lien notes	(940)	—	(1,174)
Other	68	2	(21)
Net cash provided by financing activities	(332)	2	110
(Decrease) increase in cash and equivalents	(186)	6	(79)
Cash and equivalents, beginning of period	406	400	479
Cash and equivalents, end of period	$ 220	$ 406	$ 400

Parent Company Guarantees

Guarantees are contingent commitments issued by the Company for the purpose of guaranteeing the financial obligations of a subsidiary to a financial institution. The financial obligations of the Company and the relevant subsidiary do not change by the existence of a corporate guarantee. Rather, upon the occurrence of certain events, the guarantee shifts ultimate payment responsibility of an existing financial obligation from the relevant subsidiary to the guaranteeing parent company.

The Company issues guarantees for the settlement of foreign exchange transactions. If a subsidiary fails to deliver currency on the settlement date of a foreign exchange arrangement, the beneficiary financial institution may seek payment from the Company. Terms are undefined, and are governed by the terms of the underlying financial obligation. At December 31, 2014, no claims had been made against the Company for payment under these guarantees and thus, no obligations have been recorded. None of these guarantees are collateralized.

NOTE 24—QUARTERLY DATA (UNAUDITED)

The information presented below reflects all adjustments, which, in the opinion of management, are of a normal and recurring nature necessary to present fairly the results of operations for the quarterly periods presented (dollars in millions, except per share amounts):

	2014				2013			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Total net revenue	$ 475	$ 438	$ 440	$ 461	$ 420	$ 440	$ 417	$ 446
Net income (loss)	$ 97	$ 69	$ 86	$ 41	$ 35	$ (54)	$ 47	$ 58
Earnings (loss) per share:								
Basic	$ 0.34	$ 0.24	$ 0.30	$ 0.14	$ 0.12	$ (0.19)	$ 0.17	$ 0.20
Diluted	$ 0.33	$ 0.24	$ 0.29	$ 0.14	$ 0.12	$ (0.19)	$ 0.16	$ 0.20

In the second quarter of 2013, the net loss was due to $142 million in impairment of goodwill as a result of the decision to exit the market making business. For additional information on the impairment of goodwill, see Note 10—Goodwill and Other Intangibles, Net.

In the fourth quarter of 2014, the decrease in net income was primarily due to $59 million pre-tax losses on early extinguishment of debt related to the redemption of the 6 3/4% Notes and 6% Notes. For additional information on the redemption of corporate debt, see Note 14—Corporate Debt.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Based on an evaluation under the supervision and with the participation of our management, our Chief Executive Officer and our Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"), were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Management Report on Internal Control Over Financial Reporting and the Reports of Independent Registered Public Accounting Firm are included in Item 8. Financial Statements and Supplementary Data.

(b) There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2014, identified in connection with management's evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information required to be furnished pursuant to Items 10, 11, 12, 13, and 14 is incorporated by reference from the Company's definitive proxy statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2014.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

Consolidated Financial Statements and Financial Statement Schedules

Consolidated Financial Statement Schedules have been omitted because the required information is not applicable, not material or is provided in the consolidated financial statements or notes thereto.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of E*TRADE Financial Corporation as currently in effect (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on August 4, 2010).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on July 1, 2014).
4.1	Specimen of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Registration Statement on Form S-1, Registration Statement No. 333-05525, filed on July 22, 1996).
4.2	Indenture dated August 25, 2009 between E*TRADE Financial Corporation and The Bank of New York Mellon, as Trustee, relating to the 2019 Debentures (includes form of note) (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 25, 2009).
4.3	Third Supplemental Indenture dated June 15, 2011, among the Company, the guaranteeing subsidiaries party thereto and The Bank of New York Mellon Trust Company., as Trustee, relating to the 2019 Debentures (incorporated by reference to Exhibit 4.5 of the Company's Form 10-Q filed on August 4, 2011).
4.4	Senior Indenture dated November 14, 2012 between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (includes form of note) (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on November 14, 2012).
4.5	First Supplemental Indenture dated November 14, 2012 between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 6.375% Senior Notes due 2019 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on November 14, 2012).
4.6	Second Supplemental Indenture dated November 17, 2014 between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2022 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on November 17, 2014).
*4.7	Credit Agreement dated November 10, 2014 among the Company, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent.
+10.1	Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K filed February 24, 2010).
†10.2	Master Service Agreement and Global Services Schedule, dated April 9, 2003, between E*TRADE Group, Inc. and ADP Financial Information Services, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 8, 2003).
†10.3	Global Amendment to the Master Services Agreement and Global Services Schedule, dated November 19, 2013, by and between Broadridge Securities Processing Solutions, Inc. (formerly known as ADP Financial Information Services, Inc.) and E*TRADE Group, Inc. now known as E*TRADE Financial Corporation (incorporated by reference to Exhibit 10.3 of the Company's Form 10-K filed on February 25, 2014).
+10.4	Amended 2005 Equity Incentive Plan of E*TRADE Financial Corporation. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 14, 2010).
*+10.5	Form of Executive Restricted Stock Award Agreement for Amended 2005 Equity Incentive Plan.
*+10.6	Form of Performance Share Unit Award Agreement for Amended 2005 Equity Incentive Plan.
+10.7	Executive Bonus Plan (incorporated by reference to Exhibit 10.67 to the Company's Current Report on Form 8-K filed on May 31, 2005).

Exhibit Number	Description
10.8	Master Investment and Securities Purchase Agreement, dated November 29, 2007 by and between E*TRADE Financial Corporation and Wingate Capital Ltd. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
10.9	First Amendment to Master Investment and Securities Purchase Agreement, dated as of December 12, 2007, by and between Wingate Capital Ltd. and E*TRADE Financial Corporation (incorporated by reference to Exhibit 99.5 of the Schedule 13D filed by Citadel Limited Partnership et al with respect to E*TRADE Financial Corporation on December 17, 2007).
10.10	Second Amendment to Master Investment and Securities Purchase Agreement, dated as of January 18, 2008, by and between Wingate Capital Ltd. and E*TRADE Financial Corporation (incorporated by reference to Exhibit 99.12 of the Amendment No. 1 to Schedule 13D filed by Citadel Limited Partnership et al with respect to E*TRADE Financial Corporation on January 18, 2008).
10.11	Form of Exchange Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 6, 2008).
10.12	Guarantee and Support Agreement, dated as of July 14, 2008, by E*TRADE Financial Corporation in favor of The Bank of Nova Scotia (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 16, 2008).
10.13	Form of Indemnification Agreement for Directors dated July 30, 2008 (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on August 8, 2008).
*+10.14	Form of Employment Agreement between E*TRADE Financial Corporation and each of Matthew J. Audette, Michael E. Foley and Karl A. Roessner.
+10.15	Employment Agreement dated January 17, 2013 by and between E*TRADE Financial Corporation and Paul T. Idzik (incorporated by reference to Exhibit 10.15 of the Company's Form 10-K filed on February 26, 2013).
+10.16	Employment Agreement dated May 1, 2013 by and between E*TRADE Financial Corporation and Navtej S. Nandra (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on May 7, 2013).
+10.17	Transition and Separation Agreement effective May 1, 2013 between Michael Curcio and E*TRADE Financial Corporation (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 6, 2013).
*12.1	Statement of Ratio of Earnings to Fixed Charges.
*21.1	Subsidiaries of the Registrant.
*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification—Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification—Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification—Section 906 of the Sarbanes-Oxley Act of 2002
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herein.

\+ Exhibit is a management contract or a compensatory plan or arrangement.

† Portions of this exhibit were omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to a request for confidential treatment.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 24, 2015

E*TRADE Financial Corporation
(Registrant)

By /S/ PAUL T. IDZIK
Paul T. Idzik
Chief Executive Officer
(Principal Executive Officer)

By /S/ MATTHEW J. AUDETTE
Matthew J. Audette
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ PAUL T. IDZIK Paul T. Idzik	Director and Chief Executive Officer (Principal Executive Officer)	February 24, 2015
/S/ MATTHEW J. AUDETTE Matthew J. Audette	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2015
/S/ RICHARD J. CARBONE Richard J. Carbone	Director	February 24, 2015
/S/ CHRISTOPHER M. FLINK Christopher M. Flink	Director	February 24, 2015
James P. Healy	Director	
/S/ FREDERICK W. KANNER Frederick W. Kanner	Director	February 24, 2015
/S/ JAMES LAM James Lam	Director	February 24, 2015
/S/ RODGER A. LAWSON Rodger A. Lawson	Director	February 24, 2015

Signature	Title	Date
Shelley B. Leibowitz	Director	
/S/ REBECCA SAEGER Rebecca Saeger	Director	February 24, 2015
/S/ JOSEPH L. SCLAFANI Joseph L. Sclafani	Director	February 24, 2015
/S/ GARY H. STERN Gary H. Stern	Director	February 24, 2015
/S/ DONNA L. WEAVER Donna L. Weaver	Director	February 24, 2015

EXECUTION VERSION

CREDIT AGREEMENT

dated as of

November 10, 2014,
among

E*TRADE FINANCIAL CORPORATION,
as Borrower,

The Lenders Party Hereto,

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent, and

MORGAN STANLEY SENIOR FUNDING, INC.,
as Syndication Agent

J.P. MORGAN SECURITIES LLC, and MORGAN STANLEY
SENIOR FUNDING, INC.,

as Joint Bookrunners and Co-Lead Arrangers

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SCHEDULES:

EXHIBITS:

CREDIT AGREEMENT dated as of November 10, 2014 (this "Agreement"), among E*TRADE FINANCIAL CORPORATION, the LENDERS party hereto, JPMORGAN CHASE BANK, N.A., as Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent.

The Borrower has requested that the Lenders (such term and each other term used but not defined in this preamble having the meaning assigned to such term in Article I below) extend credit in the form of Loans at any time and from time to time during the Availability Period such that the aggregate principal amount of outstanding Loans will not exceed the aggregate Commitments of the Lenders at any time. The proceeds of the Loans after the Effective Date will be used for general corporate purposes (including Permitted Acquisitions).

The Lenders are willing to extend such credit to the Borrower on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"2016 Indenture" means the Indenture dated as of May 19, 2011 between the Borrower and The Bank of New York Mellon Trust Company, N.A., as trustee, as amended or supplemented from time to time.

"2016 Notes" means the 6.75% Notes due 2016 issued pursuant to the 2016 Indenture, to the extent outstanding on the Effective Date.

"2017 Indenture" means the Indenture dated as of November 14, 2012 between the Borrower and The Bank of New York Mellon Trust Company, N.A., as trustee, as amended or supplemented from time to time.

"2017 Notes" means the 6% Senior Notes due 2017 issued pursuant to the 2017 Indenture, to the extent outstanding on the Effective Date.

"2019 Convertible Indenture" means the Indenture dated as of August 25, 2009 between the Borrower and The Bank of New York Mellon, as trustee, as amended or supplemented from time to time.

"2019 Convertible Notes" means the Class A Convertible Debentures due 2019 and the Class B Convertible Debentures due 2019, in each case issued pursuant to the 2019 Indenture, in each case to the extent outstanding on the Effective Date.

"2019 Indenture" means the Indenture dated as of November 14, 2012 between the Borrower and The Bank of New York Mellon Trust Company, N.A., as trustee, as amended or supplemented from time to time.

"2019 Notes" means the 6.375% Senior Notes due 2019 issued pursuant to the 2019 Indenture, to the extent outstanding on the Effective Date.

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Subsidiary or Indebtedness of a Subsidiary assumed in connection with an acquisition of assets by such Subsidiary; provided such Indebtedness was not incurred in connection with or in contemplation of such Person becoming a Subsidiary or such acquisition of assets.

"Adjusted Consolidated Net Income" means, for any period, the aggregate net income (or loss) of the Borrower and its Subsidiaries for such period determined in conformity with GAAP; provided that the following items shall be excluded in computing Adjusted Consolidated Net Income (without duplication):

(a) the net income (or loss) of any Person that is not a Subsidiary, except that the Borrower's equity in the net income of any such Person for such period (to the extent not otherwise excluded pursuant to clauses (b) through (f) below) will be included up to the aggregate amount of cash actually distributed by such Person during such period to the Borrower or to its Subsidiaries (less minority interest therein) as a dividend or other distribution;

(b) the net income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Borrower or any of its Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Borrower or any of its Subsidiaries;

(c) the net income of any Subsidiary (other than a Regulated Subsidiary) to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary (other than a Regulated Subsidiary) of such net income is not at the time permitted by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Subsidiary (other than a Regulated Subsidiary);

(d) the net income of any Regulated Subsidiary (i) to the extent that the declaration or payment of dividends or similar distributions by such Regulated Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter or any agreement or instrument with a Person, other than such Regulated Subsidiary's applicable regulatory authorities, or any judgment or decree applicable to such Regulated Subsidiary (ii) other than to the extent that such Regulated Subsidiary reasonably believes, in good faith, that such net income could be distributed, declared or paid as a dividend or similar distribution without causing such Regulated Subsidiary to fail to be at least "adequately capitalized" as defined in the regulations of applicable regulatory authorities, or to meet minimum capital requirements imposed by applicable regulatory authorities;

(e) any gains or losses (on an after-tax basis) attributable to asset sales;

(f) solely for purposes of calculating the amount of Restricted Payments that may be made pursuant to Section 6.08(a)(D), any amount paid or accrued as dividends on preferred Equity Interests of the Borrower owned by Persons other than the Borrower and any of its Subsidiaries;

(g) all extraordinary gains and, other than for purposes of calculating the amount of Adjusted Consolidated Net Income for purposes of making Restricted Payments pursuant to Section 6.08(a)(D), extraordinary losses;

(h) the cumulative effect of changes in accounting principles; and

(i) the net after-tax effect of impairment charges related to goodwill and other intangible assets.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders hereunder, and its successors in such capacity as provided in Article VIII.

"Administrative Agent Fee Letter" means that certain Arrangement Fee Letter between the Borrower and the Administrative Agent, dated as of the date hereof.

“Administrative Questionnaire” means an administrative questionnaire in a form supplied by the Administrative Agent.

“Agent Parties” has the meaning assigned to such term in Section 9.01.

“Agreement” has the meaning assigned to such term in the Preliminary Statements.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified; provided, however, that for purposes of Section 6.09, the term “Affiliate” shall also include any person that directly, or indirectly through one or more intermediaries, owns 10% or more of any class of Equity Interests of the Person specified or that is an executive officer or director of the Person specified.

“Alternate Base Rate” means, for any day, a rate *per annum* equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%, provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the LIBO Screen Rate at approximately 11:00 a.m. London time on such day. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate, respectively.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or any of its Affiliates from time to time concerning or relating to bribery or corruption.

“Applicable Rate” means, for any day with respect to any Loan, the applicable rate per annum set forth below under the caption “Revolving Loan ABR Spread” or “Revolving Loan Eurodollar Spread”, as the case may be, based upon the Ratings then in effect:

Ratings	Revolving Loan ABR Spread	Revolving Loan Eurodollar Spread
Category 1—Ba3 or higher by Moody’s and BB- or higher by S&P	0.50%	1.50%
Category 2—B1 by Moody’s/B+ by S&P	0.75%	1.75%
Category 3—Lower than B1 by Moody’s and lower than B+ by S&P	1.00%	2.00%

In the event of split Ratings that would result in the Moody’s Rating and S&P Rating would fall in different Categories in the pricing grid above, (x) except if the Moody’s Rating and the S&P Rating are both at least as high as those set forth in Category 1, the Applicable Rate shall not be based on Category 1 and (y) the Applicable Rate shall be based upon (I) if the Moody’s Rating and the S&P Rating differ by only one “notch”, the higher Rating, and (II) if the Moody’s Rating and the S&P Rating differ by more than one “notch”, the Rating that is one level below the actual Rating provided by the Rating Agency providing the higher of the two Ratings. If the Borrower ceases to be rated by Moody’s or S&P, Borrower will be deemed by Moody’s or S&P, to have a Rating lower than B1 from Moody’s or B+ from S&P, as applicable (unless Moody’s or S&P, as applicable, ceases to provide Ratings, in which case the Applicable Rate shall be based upon the rating of whichever of Moody’s or S&P continues to provide Ratings)

Each change in the Applicable Rate resulting from a change in the Moody’s Rating or the S&P Rating shall become effective on the date of announcement or publication by the respective Rating Agency of a change in such Rating or, in the absence of such announcement or publication, on the effective date of such changed Rating. Within one Business Day of receipt of any such announcement, publication or effective date, the Administrative Agent shall give each Lender facsimile or telephonic notice (confirmed in writing) of the Applicable Rate in effect from such date.

“Approved Fund” has the meaning assigned to such term in Section 9.04(b).

“Asset Quality Ratio” shall mean the ratio of (i) non-performing assets and, without duplication real estate owned, and other repossessed assets of the Borrower and its Subsidiaries to (ii) total equity plus loan loss reserves (as determined in accordance with GAAP) of the Borrower its Subsidiaries (which shall be reduced by deducting intangible assets and goodwill that is acquired after the Effective Date).

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Availability Period” means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

“Bank Regulatory Authority” means the Board, the OCC, the FDIC and any other relevant bank regulatory authority having jurisdiction over the Borrower or any Bank Regulated Subsidiary, as applicable.

“Bank Regulated Subsidiary” means (a) ETB Holdings (provided that such Person is a savings and loan holding company, as defined under the Home Owners’ Loan Act, as amended, or a bank holding company, as defined under the Bank Holding Company Act, as amended, but in no event shall such Person mean, or include, the Borrower), (b) any direct or indirect insured depository institution Subsidiary that is regulated by foreign, Federal or state banking regulators, including without limitation, the Board, the OCC and the FDIC, or (c) any subsidiary of a Bank Regulated Subsidiary all of the common Equity Interests of which are owned by such Bank Regulated Subsidiary and the sole purpose of which is to issue trust preferred or similar securities where the proceeds of the sale of such securities are invested in such Bank Regulated Subsidiary and where such proceeds would be treated as Tier I capital were such Bank Regulated Subsidiary a bank holding company regulated by the Board.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America, together with its constituent banks and agencies.

“Borrower” means E*TRADE Financial Corporation, a Delaware corporation.

"Borrowing" means Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Broker Dealer Regulated Subsidiary" means any Subsidiary that is registered as a broker dealer pursuant to Section 15 of the Exchange Act (as in effect from time to time) or that is regulated as a broker dealer or underwriter under any foreign securities law.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; and when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP. Notwithstanding any changes in GAAP after the Effective Date, any lease of the Borrower and its Subsidiaries that would be characterized as an operating lease under GAAP in effect on the Effective Date (whether such lease is entered into before or after the Effective Date) shall not constitute Indebtedness or a Capital Lease Obligation under this Agreement or any other Loan Document as a result of such changes in GAAP.

"CFC" means any Subsidiary that is a "controlled foreign corporation" as defined in Section 957 of the Code.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect from time to time) of Equity Interests representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests in the Borrower, (b) the consummation of any merger or business combination if, after such transaction, holders of the Borrower's ordinary voting power represented by the issued and outstanding Equity Interests before the transaction do not hold a majority of the voting power of the Borrower's issued and outstanding Equity Interests immediately after the transaction or (c) the occurrence of a "Change of Control" (or similar event, however denominated), as defined in any Subordinated Debt Documents, any indenture or agreement in respect of the 2019 Convertible Notes, the 2019 Notes, the New Notes or any other Material Indebtedness or any certificate of designations (or other provision of the organizational documents of the Borrower) relating to, or any other agreement governing the rights of the holders of, any Qualified Equity Interests.

"Change in Law" means the occurrence after the date of this Agreement (or, with respect to any Lender, such later date on which such Lender becomes a party to this Agreement) of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty; (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority; or (c) compliance by any Lender (or, for purposes of Section 2.12(b), by any lending office of such Lender or by such Lender's holding company, if any) with any request, guideline, requirement or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; provided that, notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements or directives thereunder or issued in connection therewith or in the implementation thereof, and (y) all requests, rules, guidelines, requirements or directives promulgated by United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or implemented.

"Charges" has the meaning assigned to such term in Section 9.13.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means any and all "Collateral," (or equivalent term) as defined in any applicable Security Document and any other assets pledged (or purported to be pledged) pursuant to a Security Document.

"Collateral Agreement" means the Collateral Agreement between the Borrower and the Administrative Agent, substantially in the form of Exhibit B.

"Collateral Requirement" means, at any time, the requirement that:

(a) the Administrative Agent shall have received from the Borrower a counterpart of the Collateral Agreement duly executed and delivered on behalf of the Borrower;

(b) all outstanding Equity Interests of each direct Domestic Subsidiary (or, in the case of any FSHCO, 65% of the outstanding voting Equity Interests in such FSHCO) held by the Borrower (other than any such Equity Interests if the pledge of such Equity Interests would be prohibited by any Requirement of Law or would require the consent (including non-objection) of any Governmental Authority (including any Bank Regulatory Authority) or Regulatory Supervising Organization) shall have been pledged pursuant to the Collateral Agreement, the Administrative Agent shall have a perfected first priority (subject to Permitted Encumbrances) security interest in such Equity Interests and the Administrative Agent shall have received certificates or other instruments representing all such Equity Interests that are certificated, together with undated stock powers or other instruments of transfer with respect thereto endorsed in blank;

(c) all Indebtedness of each Subsidiary that is owing to the Borrower (other than any such Indebtedness if the pledge of such Indebtedness would reasonably be likely to result in adverse tax consequences to the Borrower, as determined by the Borrower in good faith) shall be evidenced by a promissory note and shall have been pledged pursuant to the Collateral Agreement, the Administrative Agent shall have a perfected first priority (subject to Permitted Encumbrances) security interest in such Indebtedness and the Administrative Agent shall have received all such promissory notes, together with undated instruments of transfer with respect thereto endorsed in blank;

(d) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Administrative Agent to be delivered, filed, registered or recorded to create the Liens intended to be created by the Collateral Agreement and perfect such Liens to the extent required by, and with the priority required by, the Collateral Agreement, shall have been delivered, filed, registered or recorded or delivered to the Administrative Agent for filing, registration or recording, in each case, to the extent applicable, in proper form for filing, registration or recordation, as the case may be; and

(e) the Borrower shall have obtained all consents and approvals required to be obtained by it in connection with the execution and delivery of all Security Documents to which it is a party, the performance of its obligations thereunder and the granting by it of the Liens thereunder.

"Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Loans hereunder, expressed as an amount representing the maximum possible aggregate principal amount of such Lender's Loans hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.06 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as the case may be. The initial aggregate amount of the Lenders' Commitments is $200,000,000. Unless the context shall otherwise require, "Commitments" shall include any Incremental Commitments.

"Communications" has the meaning assigned to such term in Section 9.01.

"Consolidated EBITDA" means, for any period, Adjusted Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Adjusted Consolidated Net Income:

(a) Consolidated Interest Expense,

(b) consolidated income tax expense for such period,

(c) depreciation expense,

(d) amortization expense (excluding amortization expense attributable to a prepaid cash item that was paid in a prior period), and

(e) all other non-cash items reducing Adjusted Consolidated Net Income (other than items that will require cash payments and for which an accrual or reserve is, or is required by GAAP to be, made), less, in the case of loan loss provisions, any net charge-offs established during such period associated with such loan loss provisions and less all non-cash items increasing Adjusted Consolidated Net Income, all as determined on a consolidated basis for the Borrower and its Subsidiaries in conformity with GAAP; provided that, if any Subsidiary is not a wholly owned Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Adjusted Consolidated Net Income attributable to such Subsidiary multiplied by (B) the percentage of common Equity Interests of such Subsidiary not owned on the last day of such period by the Borrower or any of its wholly owned Subsidiaries.

"Consolidated Fixed Charges" means, with respect to the Borrower and its Subsidiaries for any period, the sum, without duplication, of (i) Consolidated Interest Expense, plus (ii) the product of (A) the amount of all dividend payments on any series of preferred Equity Interests of (x) the Borrower and (y) to the extent payable to Persons other than the Borrower and its Subsidiaries (in each case other than (x) dividends paid in Qualified Equity Interests, (y) to the extent they are paid in kind or accrete, except to the extent they constitute Disqualified Equity Interests and (z) dividends paid on any trust preferred securities of the Borrower or any Subsidiary that are outstanding on the Effective Date) paid, accrued or scheduled to be paid or accrued during such period times (B) a fraction, the numerator of which is one and the denominator of which is one minus the then current effective consolidated Federal, state and local tax rate of such Person, expressed as a decimal.

"Consolidated Interest Expense" means, for any period, the aggregate amount of interest in respect of Indebtedness (including, without limitation, amortization of original issue discount on any Indebtedness and the interest portion of any deferred payment obligation of the type described in clause (4) of the definition of the term "Indebtedness", calculated in accordance with the effective interest method of accounting, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing; interest expense in respect of Indebtedness that is Guaranteed or secured by the Borrower or any of its Subsidiaries), and all but the principal component of rentals in respect of Capital Lease Obligations, paid, accrued or scheduled to be paid or to be accrued by the Borrower and its Subsidiaries during such period; excluding, however, (i) any amount of such interest of any Subsidiary if the net income of such Subsidiary is excluded in the calculation of Adjusted Consolidated Net Income pursuant to clause (c) or (d) of the definition thereof (but only in the same proportion as the net income of such Subsidiary is excluded from the calculation of Adjusted Consolidated Net Income pursuant to clause (c) or (d) of the definition thereof), (ii) any premium, fees and expenses (and any amortization thereof) payable in connection with the offering or repayment, repurchase, redemption, cancellation, defeasance or discharge of the 2016 Notes, 2017 Notes, the 2019 Convertible Notes, the 2019 Notes or the New Notes all as determined on a consolidated basis (without taking into account Subsidiaries) in conformity with GAAP and (iii) interest payments (A) on trust preferred or similar securities issued by a Regulated Subsidiary to the extent the proceeds of the sale of such securities are invested in the business of a Regulated Subsidiary or (B) of a Regulated Subsidiary in respect of Indebtedness incurred under (or in respect of Indebtedness outstanding on the Effective Date, set forth on Schedule 6.01 and of the type described in) clause (x), (xi), (xiv) or (xv) of Section 6.01(a).

"Consolidated Net Worth" means, at any date of determination, (x) stockholders' equity as set forth on the most recent quarterly or annual consolidated balance sheet of the Borrower and its Subsidiaries delivered pursuant to Section 5.01(a) or (b) (which shall not take into account Subsidiaries), plus, (y) to the extent not included in clause (x), any preferred Equity Interests of the Borrower, less (z) any amounts attributable to (i) Disqualified Equity Interests or any equity security convertible into or exchangeable for Indebtedness, (ii) the cost of treasury stock and (iii) the principal amount of any promissory notes receivable from the sale of the Equity Interests of the Borrower or any of its Subsidiaries, each item to be determined in conformity with GAAP (excluding the effects of foreign currency exchange adjustments under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52).

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms "Controlling" and "Controlled" have meanings correlative thereto.

"Corporate Cash" shall mean unrestricted cash held at the Borrower.

"Default" means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means any Lender that (a) has failed to fund any portion of its Loans required to be funded by it hereunder within three (3) Business Days of the date required to be funded by it hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, (b) has notified the Borrower or the Administrative Agent that it does not intend to comply with any of its funding obligations under this Agreement (unless such notification relates to such Lenders' obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within three (3) Business Days of the date when due, unless the subject of a good faith dispute, (d) in the case of a Lender with a Commitment, is insolvent or has become the subject of a bankruptcy or insolvency proceeding or (e) has any Affiliate that has Control of such Lender that is insolvent or that has become the subject of a bankruptcy or insolvency proceeding; provided that a Lender shall not qualify as a "Defaulting Lender" solely as the result of the acquisition or maintenance of an ownership interest in such Lender or any Person controlling such Lender, or the exercise of control over such Lender or any Person controlling such Lender, by a governmental authority or an instrumentality thereof so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such governmental authority or instrumentality thereof) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

"Disclosed Matters" means the actions, suits, proceedings and matters disclosed in Schedule 3.06.

"Disqualified Equity Interests" means Equity Interests that by their terms or otherwise are (1) required to be redeemed prior to a date that is 180 day after the Maturity Date, (2) redeemable at the option of the holder thereof at any time prior to the date that is 180 days after the Maturity Date or (3) convertible or exchangeable for Equity Interests referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 180 days after the Maturity Date; provided that any Equity Interests that would not constitute Disqualified Equity Interests but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Equity Interests upon the occurrence of any "asset sale" or "change of control" occurring prior to the date that is 180 days after the Maturity Date shall not constitute Disqualified Equity Interests if the "asset sale" or "change of control" provisions applicable to such Equity Interests are no more favorable to the holders of such Equity Interests than the provisions hereof and such Equity Interests specifically provide that such Person will not repurchase or redeem any such Equity Interests pursuant to such provision prior to the payment in full of the Obligations.

"dollars" or "$" refers to lawful money of the United States of America.

"Domestic Subsidiary" means any Subsidiary incorporated or organized under the laws of the United States of America, any State thereof or the District of Columbia.

"Effective Date" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Electing SPV" has the meaning assigned to such term in Section 9.04(e).

"Electing SPV Register" has the meaning assigned to such term in Section 9.04(e).

“Electronic Signature” means an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a person with the intent to sign, authenticate or accept such contract or record.

“Electronic System” means any electronic system, including e-mail, e-fax, Intralinks®, ClearPar®, Debt Domain, Syndtrak and any other Internet or extranet-based site, whether such electronic system is owned, operated or hosted by the Administrative Agent and any of its Related Parties or any other Person, providing for access to data protected by passcodes or other security system.

“Environmental Laws” means all treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, the preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, administrative oversight costs, consultants’ fees, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) any violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived), (b) the failure by any Plan to satisfy any “minimum funding standard” (as defined in Sections 412 and 430 of the Code or Section 302 of ERISA), whether or not waived, (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan, (e) a determination that any Plan is, or is expected to be, in “at risk” status (as defined in Section 430 of the Code or Section 303 of ERISA), (f) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, (g) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan or (h) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal

Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization or in endangered or critical status, within the meaning of Title IV of ERISA.

"ETB Holdings" means ETB Holdings, Inc., a Delaware corporation and a direct wholly owned Subsidiary.

"E*TRADE Clearing" means E*TRADE Clearing LLC, a Delaware limited liability company and indirect wholly owned Subsidiary.

"E*TRADE Securities" means E*TRADE Securities LLC, a Delaware limited liability company and indirect wholly owned Subsidiary.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Eurodollar Borrowing" has the meaning assigned to such term in Section 1.02

"Eurodollar Loan" has the meaning assigned to such term in Section 1.02.

"Event of Default" has the meaning assigned to such term in Section 7.01.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Excluded Contribution" means, with respect to the Borrower, net cash proceeds from: (1) contributions to its common equity capital; and (2) the sale (other than to a Subsidiary of the Borrower or to any management equity plan or stock option plan or any other management or employee benefit plan or agreement of the Borrower) of Qualified Equity Interests of the Borrower, in each case designated as Excluded Contributions pursuant to an certificate of a Financial Officer delivered by the Borrower on the date such capital contributions are made or the date such equity interests are sold.

"Excluded Property" has the meaning assigned to such term in the Security Agreement.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder or under any other Loan Document (a "Recipient"), (a) Taxes imposed on or measured by such Recipient's net income or profits (however denominated and including, for the avoidance of doubt, any U.S. federal backup withholding in respect of such Taxes pursuant to Section 3406 of the Code), and franchise Taxes, in each case imposed by a jurisdiction as a result of the Recipient being organized or having its principal office or, in the case of any Lender, its applicable lending office in such jurisdiction or having any other present or former connection with such jurisdiction (other than a connection deemed to arise solely from such recipient having executed, delivered, become a party to, or performed its obligations or received a payment under, received or perfected a security interest under, enforced, and/or engaged in any other transaction pursuant to this Agreement or any other Loan Document), (b) any branch profits Taxes imposed under Section 884(a) of the Code or any similar Tax imposed by any jurisdiction described in clause (a), (c) with respect to any Lender (other than an assignee pursuant to a request by any Borrower under Section 2.16(b)), any U.S. federal withholding Tax imposed on amounts payable to such Lender pursuant to a law in effect at the time such Lender becomes a party hereto (or designates a new lending office), except to the extent that such Lender (or its assignor, if any) was entitled, immediately prior to the designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such U.S. federal withholding Tax pursuant to Section 2.14, (d) any withholding Tax resulting from a Recipient's failure to comply with Section 2.14(e), and (e) any Tax imposed pursuant to FATCA.

"FATCA" means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code as of the date of the Agreement (or any amended or successor version described above) and any intergovernmental agreements implementing any of the foregoing (together with any law implementing any such agreement, including any U.S. or non-U.S. regulations, notes, or any other official guidance).

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it; provided that if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

"FDIC" means Federal Deposit Insurance Corporation.

"Fee Letters" means the Administrative Agent Fee Letter and the Lender Fee Letter.

"Financial Covenants" means the covenants contained in Sections 6.12, 6.13, 6.14, 6.15 and 6.17 of this Agreement.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"Fixed Charge Coverage Ratio" means, for any period of four consecutive fiscal quarters of the Borrower, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Fixed Charges for such period.

"Foreign Lender" means any Lender that is not a United States person within the meaning of Section 7701(a)(30) of the Code.

"Foreign Subsidiary" means any Subsidiary that is not a Domestic Subsidiary.

"FSHCO" means any Domestic Subsidiary that has no material assets other than the Equity Interests of Foreign Subsidiaries that are CFCs.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, exchange, clearing house, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Granting Lender" has the meaning assigned to such term in Section 9.04(e).

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation, provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business or STAMP or other signature guarantees made by a Regulated Subsidiary in the ordinary course of its business.

"Hazardous Materials" means all explosive or radioactive substances, materials or wastes and all hazardous or toxic substances, materials, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances, materials or wastes of any nature regulated pursuant to any Environmental Law.

"Impacted Interest Period" has the meaning assigned to it in the definition of "LIBO Rate".

"Incremental Assumption Agreement" shall mean an Incremental Assumption Agreement among, and in form and substance reasonably satisfactory to, the Borrower, the Administrative Agent and one or more Incremental Lenders.

"Incremental Commitment" shall have the meaning assigned to such term in Section 2.18(a).

"Incremental Lender" shall mean a Lender with an Incremental Commitment or an outstanding Loan as a result of an Incremental Commitment.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication): (1) all indebtedness of such Person for borrowed money; (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (3) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto, but excluding letters of credit issued by such Person and excluding obligations with respect to letters of credit (including trade letters of credit) securing obligations (other than obligations described in (1) or (2) above or (5), (6) or (7) below) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the third Business Day following receipt by such Person of a demand for reimbursement); (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, which purchase price is recorded as a liability under GAAP and due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services, except trade payables and excluding any contingent post-closing purchase price adjustments or earn-outs; (5) all Capital Lease Obligations; (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness; (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; (8) Acquired Indebtedness; (9) to the extent not otherwise included in this definition, net obligations under Swap Agreements; and (10) all obligations to redeem or repurchase Disqualified Equity Interests issued by such Person. For the avoidance of doubt, deposits held by any Bank Regulated Subsidiary shall not constitute “Indebtedness” of the holder.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, provided (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP, (B) that money borrowed and set aside at the time of the incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, (C) that Indebtedness shall not include: (x) any liability for federal, state, local or other taxes, (y) performance, surety or appeal bonds provided in the ordinary course of business or (z) agreements providing for indemnification, adjustment of purchase price or similar obligations, or Guarantees or letters of credit, surety bonds or performance bonds securing any obligations of the Borrower or any of its Subsidiaries pursuant to such agreements, in any case incurred in connection with the disposition of any business, assets or Subsidiary (other than Guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition), so long as the principal amount does not to exceed the gross proceeds actually received by the Borrower or any Subsidiary in connection with such disposition and (D) the amount of Indebtedness of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

“Indemnified Taxes” means Taxes other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document.

“Indemnitee” has the meaning assigned to such term in Section 9.03(b).

“Ineligible Institution” has the meaning assigned to it in Section 9.04(b).

“Information Memorandum” means the Confidential Information Memorandum dated November 2014, relating to the Borrower and the Transactions.

“Insignificant Subsidiary” has the meaning assigned to such term in Section 7.02.

“Insurance Regulated Subsidiary” means any Subsidiary that conducts an insurance business such that it is regulated by any supervisory agency, state insurance department other state, Federal or foreign insurance regulatory body or the National Association of Insurance Commissioners.

“Interest Election Request” means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.05.

“Interest Payment Date” means (a) with respect to any ABR Loan, the last day of each March, June, September and December and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period.

“Interest Period” means, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter (or twelve months thereafter if, at the time of the relevant Borrowing, all Lenders participating therein agree to make an interest period of such duration available), as the Borrower may elect, provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Interpolated Rate” means, at any time, for any Interest Period, the rate *per annum* (rounded to the same number of decimal places as the LIBO Screen Rate) determined by the Administrative Agent (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBO Screen Rate for the longest period for which the LIBO Screen Rate is available) that is shorter than the Impacted Interest Period; and (b) the LIBO Screen Rate for the shortest period (for which that LIBO Screen Rate is available) that exceeds the Impacted Interest Period, in each case, at such time.

“Investment Advisers Act” shall mean the Investment Advisers Act of 1940, as amended.

“Investment Adviser Company” means a company which is required to be registered as an investment adviser with the SEC under the Investment Advisers Act.

“Investment Securities” means marketable securities of a Person (other than an Affiliate or joint venture of the Borrower or any Subsidiary), mortgages, credit card and other loan receivables, futures contracts on marketable securities, interest rates and foreign currencies used for the hedging of marketable securities, mortgages or credit card and other loan receivables purchased, borrowed, sold, loaned or pledged by such Person in the ordinary course of its business.

“Joint Bookrunners” means J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., in their capacity as joint bookrunners.

“Lead Arrangers” means J.P. Morgan Securities LLC and Morgan Stanley Senior Funding, Inc., in their capacities as joint bookrunners and co-lead arrangers.

“Lender Fee Letter” means that certain Fee Letter, dated November 10, 2014, among the Borrower and each Lender party to this Agreement on the Effective Date.

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to Section 9.04 or pursuant to an Incremental Assumption Agreement, other than any such Person that ceases to be a party hereto pursuant to Section 9.04.

“Leverage Ratio” means, as of any date, the ratio of (a) Total Indebtedness as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters, ended on the last day of the fiscal quarter of the Borrower most recently ended prior to such date.

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for U.S. Dollars for a period equal in length to such Interest Period as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by the Administrative Agent in its reasonable discretion; in each case the “LIBO Screen Rate”) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period; provided that if the LIBO Screen Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement; provided further that if the LIBO Screen Rate shall not be available at such time for such Interest Period (an “Impacted Interest Period”) then the LIBO Rate shall be the Interpolated Rate; provided that if any Interpolated Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“LIBO Screen Rate” has the meaning assigned to it in the definition of “LIBO Rate.”

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Document Obligations” means the due and punctual payment by the Borrower of (i) the principal of and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration or otherwise and (ii) all other monetary obligations of the Borrower to any of the Secured Parties under this Agreement and each of the other Loan Documents, including obligations to pay fees, expense reimbursement obligations and indemnification obligations, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding).

“Loan Documents” means this Agreement, including schedules and exhibits, each Incremental Assumption Agreement, the Collateral Agreement and the other Security Documents.

“Loans” means the loans made by the Lenders to the Borrower pursuant to this Agreement.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, or financial condition of the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform any of its payment obligations under any Loan Document or (c) the rights and benefits available to the Lenders under the Loan Documents.

“Material Indebtedness” means Indebtedness (other than the Loans) or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries that is outstanding in an aggregate principal amount exceeding $25,000,000. For purposes of determining Material Indebtedness, (a) the amount of Indebtedness under any Swap Agreement (other than obligations that constitute “Obligations” under this Agreement, which shall be calculated without netting the value of any Collateral that secures such obligations) shall be calculated net of any cash or Permitted Investments pledged to secure the obligations under such Swap Agreement (as calculated by the Borrower in good faith) and (b) the “principal amount” of the obligations of any Regulated Subsidiary in respect of any Indebtedness of the type described in clauses (x), (xi), (xiv) and (xv) of Section 6.01(a) shall be calculated net of collateral posted with the lender thereof to secure such Indebtedness (as determined in good faith by the Borrower).

“Maturity Date” means November 10, 2017; provided that (x) if prior to the date that is 91 days before the maturity date of the 2016 Notes (such 91st day, the“2016 Springing Maturity Date”) the 2016 Notes have not been repaid in full with cash (other than cash which represents the proceeds of Indebtedness) or the proceeds of Indebtedness of the Borrower with a maturity date (and no scheduled repayments before the date) that is at least 91 days after November 10, 2017,the Maturity Date shall be the 2016 Springing Maturity Date and (y) if prior to the date that is 91days before the maturity date (as such maturity date is in effect on the date hereof) of the 2017 Notes (such 91st day, the “2017 Springing Maturity Date”) the 2017 Notes have not been repaid in full with cash (other than cash which represents the proceeds of Indebtedness) or the proceeds of Indebtedness of the Borrower with a maturity date (and no scheduled repayments before the date) that is at least 91 days after November 10, 2017, the Maturity Date shall be the 2017 Springing Maturity Date.

“Maximum Rate” has the meaning assigned to such term in Section 9.13.

“Moody’s” means Moody’s Investors Service, Inc.

“Moody’s Rating” shall mean, as of any date, the rating most recently announced or published by Moody’s relating to the Borrower’s senior unsecured long-term debt rating (without giving effect to any credit enhancements).

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“New Indenture” means the Indenture to be dated on or about November 17, 2014 between the Borrower and The Bank of New York Mellon, as trustee, as amended or supplemented from time to time.

“New Notes” means the Senior Notes to be issued pursuant to the New Indenture not to exceed an aggregate principal amount of $540,000,000 and not to mature earlier than six (6) years after the date of issuance thereof.

“Non-Consenting Lender” has the meaning assigned to such term in Section 9.02(b).

“Obligations” means (a) Loan Document Obligations and (b) to the extent designated in writing by the Borrower as “Obligations” hereunder (provided that any such obligations owed to the Administrative Agent shall be deemed “Obligations” hereunder), the due and punctual payment and performance of all obligations (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) of the Borrower under each Swap Agreement that (i) is in effect on the Effective Date with a counterparty that is a Lender or an Affiliate of a Lender as of the Effective Date or (ii) is entered into after the Effective Date with any counterparty that is a Lender or an Affiliate of a Lender at the time such Swap Agreement is entered into.

"OCC" means the United States Office of the Comptroller of the Currency.

"Organizational Documents" means, with respect to any Person, the charter, articles or certificate of organization or incorporation and bylaws or other organizational or governing documents of such Person.

"Other Taxes" means any and all present or future recording, stamp, documentary or similar taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"Participant" has the meaning assigned to such term in Section 9.04(c).

"Participant Register" has the meaning assigned to such term in Section 9.04(c).

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Perfection Certificate" means a certificate in the form of Exhibit C or any other form approved by the Administrative Agent.

"Permitted Acquisition" means any acquisition by the Borrower or a wholly owned Subsidiary of all the outstanding Equity Interests (other than directors' qualifying shares) in, all or substantially all the assets of, or all or substantially all the assets constituting a division or line of business of, a Person if (a) no Event of Default has occurred and is continuing and immediately after giving effect thereto no Default would result therefrom, (b) such acquisition and all transactions related thereto are consummated in accordance with applicable laws, (c) all actions required to be taken with respect to such acquired or newly formed Subsidiary or such acquired assets under Sections 5.11 and 5.12 shall have been taken, (d) the business of such Person or such assets, as the case may be, constitutes a business permitted by Section 6.03(b) and (e) the Borrower has delivered to the Administrative Agent a certificate of a Financial Officer to the effect set forth in clauses (a), (b), (c) and (d) above, together with all relevant financial information for the Person or assets to be acquired and setting forth reasonably detailed calculations demonstrating compliance with the proviso in Section 6.04(b) (which calculations shall, if made as of the last day of any fiscal quarter of the Borrower for which the Borrower has not delivered to the Administrative Agent the financial statements and certificate of a Financial Officer required to be delivered by Section 5.01(a) or (b) and Section 5.01(c), respectively, be accompanied by a reasonably detailed calculation of each Financial Covenant for the relevant period).

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes, assessments or other governmental charges that are not yet due or are being contested in compliance with Section 5.05;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlords' and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) Liens incurred or deposits made to secure the performance of tenders, bids, trade contracts, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Section 7.01; and

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or that do not materially interfere with the ordinary conduct of business of the Borrower or any Subsidiary;

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America or Canada (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America or Canada), in each case maturing within one year from the date of acquisition thereof (unless such obligations are deposited by the Borrower or any Subsidiary (i) to defease any Indebtedness or (ii) in a collateral or escrow account or similar arrangement to pre-fund the payment of interest on any Indebtedness);

(b) investments in commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, a rating of "P-1" (or higher) according to Moody's or "A1" (or higher) according to S&P;

(c) investments in certificates of deposit, banker's acceptances and time or demand deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts and Variable Rate Demand Notes issued or offered by, any commercial bank or trust company organized under the laws of the United States of America, any State thereof or any foreign country recognized by the United States of America, in each case that (i) has a combined capital and surplus and undivided profits of not less than $1,000,000,000 (or the foreign currency equivalent thereof) and (ii) has outstanding debt that is rated "A" (or such similar equivalent rating) or higher by two nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act of 1933, as amended), provided that (A) up to $250,000,000 of any such investments may be made with any such commercial bank or trust company that has outstanding debt that is rated "A" (or such similar equivalent rating) or higher by only one such rating agency and (B) up to $10,000,000 of any such investments (and any amount of such investments made with a commercial bank or trust company organized under the laws of any such foreign country prior to the date that is 90 days after the Effective Date) may be made with any such commercial bank or trust company that does not meet the ratings requirement of clause (ii) above or clause (A) of this proviso;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) securities with maturities of six months or less from the date of acquisition issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s; and

(f) investments in “money market funds” within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Platform” means Debt Domain, Intralinks, Syndtrak or a substantially similar electronic system.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Pro Forma Basis” means, with respect to the calculation of the Fixed Charge Coverage Ratio, the Leverage Ratio, the Asset Quality Ratio, or any capitalization ratios as of any date, that such calculation shall give pro forma effect to all Permitted Acquisitions, all issuances, incurrences or assumptions of Indebtedness (with any such Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms) and all sales, transfers or other dispositions of any material assets outside the ordinary course of business, in each case that have occurred during (or, if such calculation is being made for the purpose of determining whether any proposed acquisition will constitute a Permitted Acquisition, since the beginning of) the four consecutive fiscal quarter period of the Borrower most-recently ended on or prior to such date as if they occurred on the first day of such four consecutive fiscal quarter period (including, in the case of any Permitted Acquisition or sale, transfer or disposition of material assets outside the ordinary course of business, cost savings to the extent such cost savings (a) would be permitted to be reflected in pro forma financial information complying with the requirements of GAAP and Article XI of Regulation S-X under the Securities Act of 1933, as amended, as interpreted by the Staff of the SEC, and as certified by a Financial Officer or (b) have been realized or for which the steps necessary for realization have been taken or are reasonably expected to be taken within 365 days following such Permitted Acquisition or sale, transfer or other disposition, and as certified by a Financial Officer, provided that, in the case of clause (b), if cost savings are included in any pro forma calculations based on the reasonable expectation that steps necessary for realization of such cost savings will be taken within 365 days of a Permitted Acquisition or a sale, transfer or other disposition, then on and after the date that is 365 days after the date of such Permitted Acquisition or sale, transfer or other disposition, such pro forma calculations shall not give effect to such cost savings to the extent that the steps necessary for realization were not actually taken during such 365-day period).

"Proposed Change" has the meaning assigned to such term in Section 9.02(b).

"Qualified Equity Interests" means Equity Interests of the Borrower other than Disqualified Equity Interests.

"Rating Agency" means Moody's or S&P, as the case may be.

"Ratings" means the Moody's Rating and/or the S&P Rating, as the context may require.

"Refinancing Indebtedness" means, with respect to any Indebtedness (the "Refinanced Indebtedness"), extending, renewal or replacement Indebtedness that satisfies the criteria of clauses (A) through (D) of Section 6.01(a)(ii) (as if the Refinanced Indebtedness were indebtedness described in Section 6.01(a)(ii)).

"Register" has the meaning assigned to such term in Section 9.04(b).

"Regulated Subsidiary" means a Broker Dealer Regulated Subsidiary, a Bank Regulated Subsidiary or an Insurance Regulated Subsidiary or any other Subsidiary subject to minimum capital requirements or other similar material regulatory requirements imposed by applicable Governmental Authorities.

"Regulatory Supervising Organization" shall mean, as applicable, FINRA, the SEC or any governmental or self-regulatory organization, exchange, clearing house or financial regulatory authority of which a Broker Dealer Regulated Subsidiary is a member or to whose rules it is subject.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having outstanding Loans and unused Commitments representing more than 50% of the aggregate outstanding Loans and unused Commitments at such time (after giving effect to any adjustment required by Section 2.17).

"Requirement of Law" means, with respect to any Person, any statute, law, treaty, rule, regulation, order, decree, writ, injunction or determination of any arbitrator or court or other Governmental Authority, including rules and regulations of and agreements with or required by any Governmental Authority or Regulatory Supervising Organization having jurisdiction over the Borrower or any Subsidiary, including the OCC, the FDIC, Board, the SEC and any self-regulatory organization of which such Subsidiary is a member, or the imposition of conditions or requirements by cease and desist orders, regulatory agreements or otherwise, pursuant to the enforcement authority of any such regulatory authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Restricted Payment" has the meaning set forth in section 6.08.

"S&P" means Standard & Poor's Financial Services LLC.

"S&P Rating" means, as of any date, the rating most recently announced or published by S&P relating to the Borrower's senior unsecured long-term debt rating (without giving effect to any credit enhancements).

“Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State or (b) the United Nations Security Council, the European Union or Her Majesty’s Treasury of the United Kingdom.

“Sanctioned Country” means, at any time, a country or territory which is itself the subject or target of any Sanctions (at the time of this Agreement, Cuba, Iran, North Korea, Sudan and Syria).

“Sanctioned Person” means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, the or by the United Nations Security Council or the European Union or Her Majesty’s Treasury of the United Kingdom, (b) any Person located, organized or resident in a Sanctioned Country or (c) any Person owned 50% or more by one or more Persons listed on one of the U.S. Sanctions-related lists.

“SEC” means the Securities and Exchange Commission or any Governmental Authority succeeding to any of its principal functions.

“Secured Parties” has the meaning assigned to such term in the Collateral Agreement.

“Security Documents” means the Collateral Agreement and each other security agreement or other instrument or document executed and delivered pursuant to Section 5.11 or 5.12 to secure any of the Obligations.

“Shareholders’ Equity” means, on any date, the consolidated shareholders’ equity of the Borrower that would be reported as shareholders’ equity on a consolidated balance sheet of the Borrower prepared as of such date.

“Significant Subsidiary” means (a) E*TRADE Securities and E*TRADE Clearing and (b) at any date of determination, any Subsidiary that, together with its Subsidiaries, (i) for the most recent fiscal year of the Borrower, accounted for more than 10% of the consolidated revenues of the Borrower and its Subsidiaries or (ii) as of the end of such fiscal year, was the owner of more than 10% of the consolidated assets of the Borrower and its Subsidiaries, all as set forth on the most recent consolidated financial statements of the Borrower for such fiscal year that have been delivered to the Administrative Agent pursuant to Section 5.01(a).

“Specified Entities” shall have the meaning assigned to it in Section 6.03(a).

“SPV” has the meaning assigned to such term in Section 9.04(e).

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The

Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Stock Loan" means a "Loan" as used in the Master Securities Loan Agreement published from time to time by the Bond Market Association.

"Subordinated Debt" means unsecured Indebtedness of the Borrower that (a) does not require any scheduled payment of principal (including pursuant to a sinking fund obligation) or mandatory redemption or redemption at the option of the holders thereof (except for redemptions in respect of asset sales and changes in control on terms that are market terms on the date of issuance) prior to the date that is 180 days after the Maturity Date, (b) contains subordination provisions reasonably satisfactory to the Administrative Agent subordinating the Indebtedness thereunder in right of payment to the payment in full in cash of the Loan Document Obligations and (c) contains covenants and events of default that are not materially more restrictive than the covenants and events of default contained in this Agreement and do not require the maintenance or achievement of any financial performance standards other than as a condition to the taking of specified actions.

"Subordinated Debt Documents" means the indenture or indentures under which any Subordinated Debt is issued, all side letters, instruments, agreements and other documents evidencing or governing any Subordinated Debt, providing for any right in respect thereof, affecting the terms of the foregoing or entered into in connection therewith and all schedules, exhibits and annexes to each of the foregoing.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of the Borrower.

"Swap Agreement" means any agreement with respect to any (i) currency exchange, interest rate, commodity, credit or equity swap, forward or futures agreements, currency exchange, interest rate, commodity, credit or equity cap agreements, currency exchange, interest rate, commodity, credit or equity collar agreements, or currency exchange, interest rate, commodity, credit or equity puts or call, and (ii) other agreements or arrangements designed to protect such Person, directly or indirectly, against fluctuations in currency exchange, interest rate, commodity or equity prices.

"Syndication Agent" means Morgan Stanley Senior Funding, Inc., in its capacity as syndication agent for the Lenders hereunder, and its successors in such capacity.

"Synthetic Lease" means, as to any Person, any lease (including leases that may be terminated by the lessee at any time) of any property (whether real, personal or mixed) that is designed to permit the lessee (a) to treat such lease as an operating lease, or not to reflect the leased property on the lessee's balance sheet, under GAAP and (b) to claim depreciation on such property for U.S. Federal income tax purposes, other than any such lease under which such Person is the lessor.

"Synthetic Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any Synthetic Lease, and the amount of such obligations shall be equal to the sum (without duplication) of (a) the capitalized amount thereof that would appear on a balance sheet of such Person in accordance with GAAP if such obligations were accounted for as Capital Lease Obligations and (b) the amount payable by such Person as the purchase price for the property subject to such lease assuming the lessee exercises the option to purchase such property at the end of the term of such lease.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings (including backup withholding) imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Total Indebtedness" means, as of any date, the aggregate principal amount of Indebtedness of the Borrower and the Subsidiaries outstanding as of such date of the type described in clauses (1), (2), (3) or (5) of the definition of "Indebtedness" that would be required to be reflected on the consolidated balance sheet of the Borrower and its Subsidiaries in accordance with GAAP (excluding Indebtedness represented by trust preferred securities that are outstanding on the Effective Date and excluding Indebtedness incurred under (or in respect of Indebtedness outstanding on the Effective Date, set forth on Schedule 6.01 and of the type described in) clause (x), (xi), (xiv) or (xv) of Section 6.01(a)).

"Transactions" means (a) the execution, delivery and performance by the Borrower of the Loan Documents, the borrowing of Loans after the Effective Date, the incurrence of the New Notes and the use of the proceeds thereof (together with cash on hand of the Borrower) to permanently redeem, repay, repurchase, defease or cancel the 2016 Notes and the 2017 Notes and (b) the payment of the Transaction Costs.

"Transaction Costs" means all fees, costs and expense incurred or payable by the Borrower or any Subsidiary in connection with the Transactions.

"Type," when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"U.S. Tax Compliance Certificate" has the meaning assigned to such term in Section 2.14(e)(ii).

"USA Patriot Act" has the meaning assigned to such term in Section 4.01(j).

"Variable Rate Demand Note" means a note representing borrowings from a commercial bank that is payable on demand and bears interest based upon a money market rate.

"Well Capitalized" means "well capitalized" within the meaning of 12 U.S.C. §1831o or 12 C.F.R. § 225.2 (as applicable, and as in effect on the date of determination) or any higher required capital requirement standard as such term or standard is from time to time defined or imposed by the Board, the OCC or any other regulatory body with supervisory authority over the Borrower or any Subsidiary.

"wholly owned Subsidiary" means, with respect to any Person at any date, a subsidiary of such Person of which securities or other ownership interests representing 100% of the Equity Interests (other than directors' qualifying shares) are, as of such date, owned, controlled or held by such Person or one or more wholly owned Subsidiaries of such Person or by such Person and one or more wholly owned Subsidiaries of such Person. "wholly owned Regulated Subsidiary" and "wholly owned Subsidiary" shall have the correlative meanings hereunder

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Type (e.g., a "Eurodollar Loan"). Borrowings also may be classified and referred to by Type (e.g., a "Eurodollar Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, amended and restated, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time, provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision (including any definition) hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. Notwithstanding any other provision contained herein, (i) all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Financial Accounting Standards Board Accounting Standards Codification 825 (or any other Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of the Borrower or any Subsidiary at "fair value", as defined therein and (ii) with respect to Indebtedness that is convertible into, or exchangeable for, Equity Interests, notwithstanding the treatment of such Indebtedness on the balance sheet of the Borrower or any Subsidiary under GAAP, for all purposes under this Agreement such Indebtedness shall be treated as Indebtedness equal to 100% of the aggregate principal amount at maturity.

SECTION 1.05. Pro Forma Calculations. With respect to any period during which any Permitted Acquisition, any sale, transfer or other disposition of any material assets outside the ordinary course of business occurs, calculations of the Fixed Charge Coverage Ratio, the Leverage Ratio, the Asset Quality Ratio and any capitalization ratio shall be made on a Pro Forma Basis.

SECTION 1.06. Computation of Financial Covenants. To the extent that any calculation under this Agreement is required to be made (in order to determine whether a transaction may be entered into, Indebtedness may be incurred, or otherwise) as of the end of any four fiscal quarter period ended after the Effective Date, but prior to the date that financial statements are required to be delivered for the fiscal year ended December 31, 2014, compliance with such calculation shall be deemed required as of the four fiscal quarter period ended as of September 30, 2014.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender severally agrees to make Loans in US Dollars to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in the aggregate principal amount of such Lender's outstanding Loans exceeding such Lender's Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Loans. Each Lender having an Incremental Commitment agrees, subject to the terms and conditions and relying upon the representations and warranties set forth herein and in the applicable Incremental Assumption Agreement, to make Loans to the Borrower, in an aggregate principal amount that will not result in the aggregate principal amount of such Lender's outstanding Loans exceeding such Lender's Commitment.

SECTION 2.02. Loans and Borrowings.

(a) Each Loan shall be made as part of a Borrowing consisting of Loans of the same Type made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder, provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.11, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan, provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $1,000,000 and not less than $5,000,000. At the time that each ABR Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of $500,000 and not less than $1,000,000. Borrowings of more than one Type may be outstanding at the same time, provided that there shall not at any time be more than a total of ten Eurodollar Borrowings outstanding. Notwithstanding anything to the contrary herein, an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the aggregate Commitment.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Borrowings. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 1:00 p.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information:

(i) the aggregate amount of such Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period";

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.04; and

(vi) that as of such date Sections 4.02(a) and (b) are satisfied.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 3:00 p.m., New York City time, to the account of the Administrative Agent most-recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption and in its sole discretion, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.05. Interest Elections.

(a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request or designated by Section 2.03 and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request or designated by Section 2.03. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such

Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.06. Termination and Reduction of Commitments.

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments, provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.08, the aggregate principal amount of outstanding Loans would exceed the aggregate Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable, provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities or the receipt of the proceeds from the issuance of other Indebtedness, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent.

SECTION 2.07. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan of such Lender on the Maturity Date.

(b) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to such Lender and its registered assigns and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to such payee and its registered assigns.

SECTION 2.08. Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the requirements of this Section.

(b) In the event and on such occasion that the aggregate principal amount of outstanding Loans exceeds the aggregate Commitments, the Borrower shall prepay Borrowings in an aggregate amount equal to such excess.

(c) Prior to any optional prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (d) of this Section.

(d) The Borrower shall notify the Administrative Agent by telephone (confirmed by facsimile) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Borrowing, not later than 1:00 p.m., New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid, provided that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.06, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.06 by the Borrower (by notice to the Administrative Agent on or prior to the specified date) if such condition is not satisfied. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued and unpaid interest to the extent required by Section 2.10.

SECTION 2.09. Fees.

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, equal to 0.375% per annum on the average daily unused amount of the Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Commitment terminates. If any Lender becomes a defaulting Lender, the commitment fee that would otherwise accrue and be payable for the accounts of such Lender for the period during which such Lender is a defaulting Lender will not be required to be paid. Accrued commitment fees shall be payable in arrears on the last Business Day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, a Commitment of a Lender shall be deemed to be used to the extent of the outstanding Loans.

(b) The Borrower agrees to pay to the Administrative Agent, for the account of each Lender, upfront fees of a percentage, in an amount set forth in the Lender Fee Letter, of the stated principal amount of each Lender's Commitments, at the Effective Date.

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent in the Administrative Agent Fee Letter.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, in the case of commitment fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.10. Interest.

(a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2.00% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2.00% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments, provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.11. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making, continuing or converting or maintaining their Loans included in such Borrowing for such Interest Period,

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or facsimile as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.12. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate);

(ii) impose on such Lender (or its applicable lending office) any additional Tax (other than any Indemnified Taxes or Other Taxes indemnified under Section 4.10 or any Excluded Tax) with respect to its loans, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Eurodollar Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan), then the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor, and provided, further, that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.13. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.09(d) and is revoked in accordance therewith) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.16 or Section 9.02(c), then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate that such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.14. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made free and clear of and without deduction for any Taxes unless required by applicable law. If an applicable withholding agent is required by applicable law (as determined in good faith by the applicable withholding agent) to deduct any Tax from any payments made under any Loan Document, then (i) if such Tax is an Indemnified Tax or Other Tax, the sum payable by the Borrower shall be increased as necessary so that after such deduction (including such deductions applicable to additional sums payable under this Section) have been made the Lender or the Administrative Agent (in the case of any payments made to the Administrative Agent for its own account), as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the applicable withholding agent shall make such deductions and (iii) the applicable withholding agent shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Without limiting the provisions of paragraph (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent and each Lender within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid or payable by the Administrative Agent or such Lender, as the case may be, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority, provided that the Borrower shall not be obligated to make payment to the Administrative Agent or such Lender pursuant to this Section 2.14 in respect of penalties, interest and other liabilities attributable to any Indemnified Taxes or Other Taxes if such penalties, interest and other liabilities result from gross negligence or willful misconduct of the Administrative Agent or such Lender, as determined by a court of competent jurisdiction in a final non-appealable judgment. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or by the Administrative Agent on its own behalf or on behalf of a Lender shall be promptly delivered to the Borrower and such certificate shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments made under any Loan Documents shall deliver to the Borrower and the Administrative Agent, at the time or times reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate, of withholding. In addition, any Lender, if reasonably requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

Without limiting the generality of the foregoing,

(A) any Lender that is not a Foreign Lender shall deliver to the Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), whichever of the following is applicable:

(i) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed originals of IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty; (ii) executed originals of IRS Form W-8ECI; (iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit J-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3(C) of the Code (a "U.S. Tax Compliance Certificate") and (y) executed originals of IRS Form W-8BEN or W-8BEN-E; or (iv) to the extent a Foreign Lender is not the beneficial owner, executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit J-2 or Exhibit J-3, IRS Form W-9, and/or other certification documents from each beneficial owner as applicable provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit J-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine whether such Lender has complied with such Lender's obligations under FATCA or to determine the amount, if any, to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

(f) If the Administrative Agent or a Lender determines, in its sole discretion exercised in good faith, that it has received a refund from a Governmental Authority in respect of Indemnified Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.14, or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.14, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Indemnified Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay to the Administrative Agent or Lender the amount paid over pursuant to this paragraph (f) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that the Administrative Agent or Lender is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (f), in no event will the Administrative Agent or Lender be required to pay any amount to the Borrower pursuant to this paragraph (f) the payment of which would place the Administrative Agent or Lender in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts giving rise to such refund had never been paid. This paragraph shall not be construed to require the Administrative Agent or Lender to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower or any other Person.

(g) Each Party's obligations under this Section 2.14 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

(h) The Administrative Agent shall deliver to the Borrower on or before the date on which it becomes a party to any Loan Document (and from time to time thereafter upon the reasonable request of the Borrower) executed originals of IRS Form W-9.

(i) For purposes of this Section 2.14 the term "applicable law" includes FATCA

SECTION 2.15. Payments Generally; Pro Rata Treatment; Sharing of Setoffs.

(a) The Borrower shall make each payment required to be made by it under any Loan Document (whether of principal, interest or fees, or of amounts payable under Section 2.12, 2.13 or 2.14, or otherwise) prior to the time expressly required hereunder or under such other Loan Document for such payment (or, if no such time is expressly required, prior to 12:00 noon, New York City time), on the date when due, in immediately available funds, without setoff or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 383 Madison Avenue, New York, New York, except that payments pursuant to Sections 2.12, 2.13, 2.14 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties and (ii) second, towards payment of principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans, provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Subsidiary or other Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption and in its sole discretion, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(a) or (b), 2.15(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Notwithstanding anything to the contrary contained herein, the provisions of this Section 2.15 shall be subject to the express provisions of this Agreement which require, or permit, differing payments to be made to non-Defaulting Lenders as opposed to Defaulting Lenders.

SECTION 2.16. Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any Indemnified Taxes or additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or 2.14, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense or otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any Indemnified Taxes or additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender becomes a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that (i) to the extent an assignment to such Lender would require the consent of the Administrative Agent under Section 9.04, the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans accrued interest thereon, accrued fees and all other amounts payable to it hereunder from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts), (iii) the Borrower or such assignee shall have paid to the Administrative Agent the processing and recordation fee specified in Section 9.04(b) and (iv) in the case of any such assignment resulting from a claim for compensation under Section 2.12 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise (including as a result of any action taken by such Lender under paragraph (a) above), the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.17. Defaulting Lenders.

Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender hereunder (as determined by the Administrative Agent), then the following provisions shall apply for so long as such Defaulting Lender is a Defaulting Lender:

(a) the Administrative Agent shall promptly notify the Borrower and each Lender that such Lender is a Defaulting Lender for purposes of this Agreement;

(b) fees under Section 2.09(a) shall cease to accrue on the Commitment of such Defaulting Lender;

(c) the Commitments and Loans of such Defaulting Lender shall be disregarded for all purposes of any determination of whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.02);

(d) for purposes of determining the amount of the total Commitments, the Commitment of each Defaulting Lender shall be excluded therefrom (other than any portion of such Commitment pursuant to which there is then outstanding a Loan from such Defaulting Lender); and

(e) in the Administrative Agent's sole discretion:

(i) any prepayment of the principal amount of any Loans shall be applied solely to prepay the Loans of all non-Defaulting Lenders pro rata prior to being applied to the prepayment of any Loans of any Defaulting Lender; and

(ii) any amount payable to such Defaulting Lender pursuant to this Agreement (whether on account of principal, interest, fees or otherwise and including any amount that would otherwise be payable to such Defaulting Lender pursuant to Section 2.12 or Section 2.15) may, in lieu of being distributed to such Defaulting Lender, be retained by the Administrative Agent in a segregated non-interest bearing account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Administrative Agent (i) first, pro rata, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent, (ii) second, pro rata, to the payment of any amounts owing to the Borrowers or the Lenders as a result of any judgment of a court of competent jurisdiction obtained by any Borrower or any Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement and (iii) third, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction.

SECTION 2.18. Incremental Commitments.

(a) The Borrower may, by written notice to the Administrative Agent from time to time, request an increase in the aggregate amount of the Commitments (each such increase, an "Incremental Commitment"), as applicable, in an aggregate amount not to exceed $50,000,000, from one or more Incremental Lenders, all of which must be permitted to become assignees of Commitments or Loans under Section 9.04. Such notice shall set forth (i) the amount of the Incremental Commitments being requested (which shall be in minimum increments of $5,000,000 and a minimum amount of $10,000,000 or such lesser amount equal to the remaining unused amount) and (ii) the date on which such Incremental Commitments are requested to become effective.

(b) The Borrower may seek Incremental Commitments from existing Lenders (each of which shall be entitled to agree or decline to participate in its sole discretion) and, subject to the prior written consent of the Administrative Agent (such consent not to be unreasonably delayed or withheld) and, subject to the prior written consent of the Administrative Agent (such consent not to be unreasonably delayed or withheld), additional banks, financial institutions and other institutional lenders who will become Incremental Lenders in connection therewith, in each case, solely to the extent such consent, if any, would be required under Section 9.04 for an assignment of Loans or Commitments, as applicable, to additional banks, financial institutions and other institutional lenders. The Borrower and each Incremental Lender shall execute and deliver to the Administrative Agent an Incremental Assumption Agreement and such other documentation as the Administrative Agent shall reasonably specify to evidence the Incremental Commitment of such Person. The terms and provisions of the Incremental Commitments shall be identical to those of the Commitments. The Incremental Commitments shall rank *pari passu* in right of payment and security with the Commitments. The Administrative Agent shall promptly notify each Lender as to the effectiveness of each Incremental Assumption Agreement. Each of the parties hereto hereby agrees that, upon the effectiveness of any Incremental Assumption Agreement, this Agreement shall be deemed amended to the extent (but only to the extent) necessary to reflect the existence and terms of the Incremental Commitments evidenced thereby, and the Administrative Agent and the Borrower may revise this Agreement to evidence such amendments.

(c) Notwithstanding the foregoing, no Incremental Commitment shall become effective under this Section 2.18 unless (i) on the date of such effectiveness, the conditions set forth in paragraphs (a) and (b) of Section 4.02 shall be satisfied, a certificate to that effect dated such date and executed by a Financial Officer of the Borrower, (ii) except as otherwise specified in the applicable Incremental Assumption Agreement, the Administrative Agent shall have received legal opinions, board resolutions and other closing certificates reasonably requested by the Administrative Agent and consistent with those delivered on the Closing Date under Section 4.01 and (iii) all fees and expenses owing in respect of such Incremental Commitment to the Administrative Agent and the Lenders shall have been paid in full.

(d) On the date of effectiveness of any Incremental Commitments, the Borrower shall (A) prepay the outstanding Loans (if any) in full, (B) simultaneously borrow new Loans hereunder in an amount equal to such prepayment (in the case of Eurodollar Borrowings, with Adjusted LIBO Rates equal to the outstanding Adjusted LIBO Rate and with Interest Period(s) ending on the date(s) of any then outstanding Interest Period(s)); provided that with respect to subclauses (A) and (B), (x) the prepayment to, and borrowing from, any existing Lender shall be effected by book entry to the extent that any portion of the amount prepaid to such Lender will be subsequently borrowed from such Lender and (y) the existing Lenders, the Incremental Lenders and the existing Lenders shall make and receive payments among themselves, in a manner acceptable to the Administrative Agent, so that, after giving effect thereto, the Loans are held ratably by the Lenders in accordance with the respective Commitments of such Lenders (after giving effect to such Incremental Commitments) and (C) pay to the Lenders the amounts, if any, payable under Section 2.13 as a result of any such prepayment.

ARTICLE III

Representations and Warranties

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required. The Borrower has all requisite power and authority to execute, deliver and perform its obligations under each Loan Document and to effect the Transactions.

SECTION 3.02. Authorization; Enforceability. The Transactions have been duly authorized by all necessary corporate or other action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document, when executed and delivered by the Borrower, will constitute, a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect, (ii) filings necessary to perfect Liens created under the Loan Documents, (iii) any consent, approval, registration, filing or other action required for the exercise of remedies under the Collateral Documents and (iv) filings with the SEC in connection with the Transactions that will be made when required, (b) will not violate the Organizational Documents of the Borrower or any Subsidiary, (c) will not violate any Requirement of Law applicable to the Borrower or any Subsidiary, (d) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any Subsidiary or their respective assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any Subsidiary or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation thereunder, and (e) will not result in the creation or imposition of any Lien on any asset of the Borrower or any Subsidiary, except Liens created under the Loan Documents, except in the case of clauses (c) and

(d) above where such violations, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.04. Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and consolidated statements of income, stockholders' equity and cash flows (i) as of and for the fiscal years ended December 31, 2011, 2012 and 2013, reported on by Deloitte & Touche LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2014 (and comparable period for the prior fiscal year), certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its Subsidiaries as of such dates and for such periods in accordance with GAAP consistently applied, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Except as disclosed in the financial statements referred to above or the notes thereto or in the Information Memorandum and except for the Disclosed Matters, after giving effect to the Transactions, none of the Borrower or the Subsidiaries has, as of the Effective Date, any material direct or contingent liabilities, long-term commitments or unrealized losses.

(c) No event, change or condition has occurred and is continuing that has had, or could reasonably be expected to have, a material adverse effect on the business, operations or financial condition of the Borrower and its Subsidiaries, taken as a whole, since December 31, 2013.

SECTION 3.05. Properties.

(a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes or as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, service marks, trade dress, domain names, copyrights, software, data, patents and other intellectual property material to its business, and the operation of their respective businesses by the Borrower and its Subsidiaries does not infringe upon or violate the rights of any other Person, except for any such infringements or violations that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06. Litigation and Environmental Matters.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower or any Subsidiary, threatened against or affecting the Borrower or any Subsidiary (i) that could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any Subsidiary (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with (a) all Requirements of Law applicable to it or its property and (b) all indentures, agreements and other instruments binding upon it or its property, except, in each case, where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.08. Investment and Holding Company Status. The Borrower is not registered, and is not required to register, as an "investment company" as such term is defined in the Investment Company Act of 1940.

SECTION 3.09. Taxes. Each of the Borrower and its Subsidiaries (a) has timely filed or caused to be filed all Tax returns and reports required to have been filed and (b) has paid or caused to be paid all Taxes required to have been paid by it, except in each case (i) any Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as the case may be, has set aside on its books adequate reserves therefor or (ii) to the extent that the failure to make such filings or to pay such Taxes would not reasonably be expected to result in a Material Adverse Effect. No tax deficiency, assessment or claim has been determined with respect to the Borrower or any of the Subsidiaries which has had (nor does the Borrower have any knowledge of any tax deficiency, assessment or claim which, if determined adversely to the Borrower or any of the Subsidiaries, would have) a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred and is continuing or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under all underfunded Plans (determined for each Plan based on the assumptions used for purposes of Accounting Standards Codification Topic 715) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount that, if required to be paid by the Borrower and its Subsidiaries, could reasonably be expected to have a Material Adverse Effect. The minimum funding standards of ERISA and the Code with respect to each Plan have been satisfied except to the extent the failure to satisfy such standards could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Disclosure. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or delivered thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed by it to be reasonable at the time delivered and, if such projected financial information was delivered prior to the Effective Date, as of the Effective Date.

SECTION 3.12. Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of the Borrower and each Subsidiary in, each Subsidiary as of the Effective Date.

SECTION 3.13. Insurance. The Borrower believes that the insurance maintained by or on behalf of the Borrower and the Subsidiaries is in such amounts (with no greater risk retention) and against such risks as is (a) customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations and (b) adequate.

SECTION 3.14. Solvency. Immediately after the consummation of the Transactions, (a) the fair value of the assets of the Borrower and its Subsidiaries on a consolidated basis, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise, (b) the present fair saleable value of the property of the Borrower and its Subsidiaries on a consolidated basis will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured, (c) the Borrower and its Subsidiaries on a consolidated basis will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, and (d) the Borrower and its Subsidiaries on a consolidated basis will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the consummation of the Transactions; provided, that in the case of clauses (c) and (d), the Borrower makes no representation as to any regulatory restrictions on its ability to use any of its consolidated assets to pay any such debts, liabilities, obligations or commitments.

SECTION 3.15. Broker Dealer Regulated Subsidiaries and Investment Advisory Companies.

(a) Other than as set forth on Schedule 3.15, none of the Borrower and its Subsidiaries are required to be registered with the SEC or any other governmental entity as a broker or dealer. Each Broker Dealer Regulated Subsidiary which is required to be registered as a broker or dealer with the SEC under the Exchange Act is duly so registered, is a member of FINRA or another self-regulatory organization of which it is required to be a member, and is duly registered and licensed under any applicable state laws, is in compliance in all material respects with the applicable provisions of the Exchange Act, and is in compliance in all material respects with all applicable rules of FINRA except as would not reasonably be expected to have a Material Adverse Effect. All Persons associated with any Broker Dealer Regulated Subsidiary required to be registered or licensed with FINRA or with any other self-regulatory organization or other governmental entity are duly registered or licensed except where any failure to be so registered or licensed individually, or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Each Investment Adviser Company which is required to be registered as an investment adviser with the SEC under the Investment Advisers Act is duly so registered. No proceeding is pending or threatened with respect to the suspension, revocation, or termination of any such registrations and the termination or withdrawal of any such registrations is not contemplated by the Borrower or any Subsidiary.

(b) To the knowledge of the Borrower and each Subsidiary, no Broker Dealer Regulated Subsidiary or its “associated persons” (as defined in the Exchange Act) is currently ineligible or disqualified pursuant to Section 15, Section 15B or Section 15C of the Exchange Act to serve as a broker or dealer or “associated person” of a broker or dealer except as would not reasonably be expected to have a Material Adverse Effect.

(c) Each Bank Regulated Subsidiary is Well Capitalized. Each of E*TRADE Clearing's and E*TRADE Securities' net capital is not less than the greater of (i) 5.0% of such firm's aggregate debit items, and (ii) 150% of the minimum dollar amount specified in Rule 15c3-1(a)(ii) (which, for the avoidance of doubt is currently $250,000). As used in this clause, the terms "net capital" and "aggregate debit items" shall be as defined or used in Rule 15c3-1 under the Exchange Act, as in effect from time to time.

(d) The information contained in the currently effective Form BD of each Broker Dealer Regulated Subsidiary and any amendments thereto filed with the SEC and FINRA by each Broker Dealer Regulated Subsidiary and the information contained in the Investment Adviser Companies' Forms ADV as on file with the Investment Adviser Registration Depository, was, at the time of filing, complete and accurate in all material respects.

(e) As of the date hereof, no Investment Adviser Company has received notice that it is the subject of a disciplinary action by a governmental entity alleging that the Investment Adviser Company's code of ethics or compliance procedures with respect to insider trading, privacy policies and business continuity plans are inadequate.

(f) No Broker Dealer Regulated Subsidiary or Investment Adviser Company has received a notice from the SEC, FINRA, or any other government authority, self-regulatory organization or securities exchange of any alleged rule violation or other circumstance which could reasonably be expected to have a Material Adverse Effect.

(g) No governmental authorization, and no notice to or filing with, any governmental authority or any other third party is required for the exercise by any Lender of its rights under the Loan Documents, except with respect to the exercise of any remedies with respect to, or any other transfer of, the equity interests of any Broker Dealer Regulated Subsidiary, giving all necessary notices to third parties and obtaining all necessary governmental and self-regulatory organization authorizations in connection with such exercise of remedies or transfer including, without limitation, to the extent required under FINRA's NASD Rule 1017 (or any successor to such rule), except, in each case, as would not otherwise be expected to have a Material Adverse Effect.

SECTION 3.16. Senior Indebtedness. To the extent any Subordinated Debt is outstanding, the Obligations constitute "senior indebtedness," "designated senior indebtedness" or any other such comparable term under, and as defined in, the Subordinated Debt Documents related thereto.

SECTION 3.17. No Default. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

SECTION 3.18. Anti-Corruption Laws and Sanctions. The Borrower has implemented and maintains in effect policies and procedures reasonably designed to promote compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and, to the knowledge of the Borrower, their respective officers, employees, directors and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of the Borrower, any Subsidiary, any of their respective directors or officers or, to the knowledge of the Borrower, any of their respective employees or any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person.

SECTION 3.19. Use of Proceeds. The proceeds of the Loans made after the Effective Date will be used for general corporate purposes (including Permitted Acquisitions and investments). No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

SECTION 3.20. Security Agreement. The Collateral Agreement is effective to create in favor of the Administrative Agent for its benefit and the benefit of the Lenders, legal, valid and enforceable Liens on, and security interests in, the Collateral and, when (i) financing statements and other filings in appropriate form are filed in the office of the Delaware Secretary of State and (ii) upon the taking of possession or control by the Administrative Agent of the Collateral with respect to which a security interest may be perfected only by possession or control (which possession or control shall be given to the Administrative Agent to the extent possession or control by the Administrative Agent is required by each Security Agreement), the Liens created by the Collateral Agreement shall constitute fully perfected Liens on, and security interests in, all right, title and interest of the grantors in the Collateral, in each case subject to no Liens other than Permitted Encumbrances.

ARTICLE IV

Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include facsimile transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Davis Polk & Wardwell LLP, counsel for the Borrower, and of the General Counsel of the Borrower, in each case in form and substance reasonably satisfactory to the Administrative Agent and its counsel. The Borrower hereby requests such counsel to deliver such opinion.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower, the authorization of the Transactions and any other legal matters relating to the Borrower, the Loan Documents or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by a Financial Officer or the President or a Vice President of the Borrower, confirming compliance with the conditions set forth in Sections 4.02(a) and (b).

(e) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including under the Fee Letters and including, to the extent invoiced at least one Business Day prior to the Effective Date, reimbursement or payment of all out-of-pocket expenses of the Lead Arrangers and the Administrative Agent (including fees, charges and disbursements of counsel to the extent required under the Fee Letters or Section 9.03(a)) required to be reimbursed or paid by the Borrower under any Loan Document.

(f) The Collateral Requirement shall have been satisfied.

(h) The Lenders shall have received a certificate from the chief financial officer of the Borrower, in form and substance satisfactory to the Lenders, certifying as to the solvency (determined as set forth in Section 3.14) of the Borrower and its Subsidiaries on a consolidated basis after giving effect to the Transactions (assuming for purposes of this Section 4.01(g) that the New Notes have been incurred and the proceeds thereof together with cash on hand of the Borrower have been applied to redeem, repurchase , repay, defease or cancel the 2016 Notes and the 2017 Notes in full).

(i) To the extent requested at least five business days prior to the Effective Date, the Lenders shall have received at least three business days prior to the Effective Date all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation the PATRIOT Act. (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "USA PATRIOT Act")

(j) The Lenders shall have received the Projections.

(k) Since December 31, 2013, there shall not have occurred any event, change or condition that has had, or could reasonably be expected to have, a material adverse effect on the business, operations or financial condition of the Borrower and its Subsidiaries, taken as a whole.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 5:00 p.m., New York City time, on November 30 , 2014 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing (including, for the avoidance of doubt, on the Effective Date) is subject to receipt of the request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in the Loan Documents that are qualified by materiality shall be true and correct, and the representations and warranties that are not so qualified shall be true and correct in all material respects, in each case on and as of the date of such Borrowing.

(b) At the time of and immediately after giving effect to such Borrowing no Default or Event of Default shall have occurred and be continuing.

(c) Receipt of a Borrowing Request by the Administrative Agent.

Each Borrowing (provided that a conversion or a continuation of a Borrowing shall not constitute a "Borrowing" for purposes of this Section) shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees, expenses and other amounts (other than contingent amounts not yet due) payable under any Loan Document shall have been paid in full, the Borrower covenants and agrees with the Administrative Agent and the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent on behalf of each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and audited consolidated statements of operations and comprehensive income, stockholders' equity and cash flows as of the end of and for such year, and related notes thereto, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its unaudited consolidated balance sheet and unaudited consolidated statements of operations and comprehensive income, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by a Financial Officer as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under paragraph (a) or (b) above, (i) a certificate of a Financial Officer (A) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (B) setting forth reasonably detailed calculations demonstrating compliance with the Financial Covenants, and (ii) a narrative report and management's discussion and analysis, in a form reasonably satisfactory to the Administrative Agent, of the financial condition and results of operations of the Borrower for such fiscal year or portion of such fiscal year, as compared to amounts for the previous fiscal year (or corresponding portion of the previous fiscal year) (it being understood that the information required by clause (c)(ii) may be furnished in the form of a Form 10-K or Form 10-Q);

(d) (i) a written notice to the Administrative Agent if, as a result of any change in GAAP or in the application thereof from those in effect on the Effective Date, the financial statements delivered pursuant to paragraph (a) or (b) above will differ in any material respect from the financial statements that would have been delivered pursuant to such clauses had no such change in GAAP or the application thereof been made, and (ii) if reasonably requested by the Administrative Agent after consultation with the Borrower, together with the first delivery of financial statements pursuant to paragraph (a) or (b) above following such change, a schedule prepared by a Financial Officer on behalf of the Borrower reconciling such changes to what the financial statements would have been without giving effect to such change;

(e) [Reserved];

(f) no later than 60 days after the commencement of each fiscal year of the Borrower, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and consolidated statement of projected operations as of the end of and for such fiscal year and setting forth the assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget;

(g) concurrently with any delivery of financial statements under paragraph (a) or (b) above, (i) to the extent permitted to be disclosed by the applicable Regulatory Supervising Organization or any Governmental Authority, audit reports relating to such financial statements that have been prepared by the Borrower or any Subsidiary pursuant to any rules or requirements of any Regulatory Supervising Organization or any governmental authority, including without limitation FINRA and comparable organizations in foreign jurisdictions, to the extent any such report described in this paragraph discloses any violation of applicable rules or regulations which would reasonably be expected to have a Material Adverse Effect;

(h) promptly after the same become publicly available, copies of all periodic and other reports (including FOCUS reports), proxy statements and other materials filed by the Borrower or any Subsidiary with the SEC, any national securities exchange, the OCC, FDIC or any other United States Governmental Authority that regulates a Regulated Subsidiary or distributed by the Borrower to the holders of its Equity Interests generally, as the case may be; and

(i) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

Notwithstanding the foregoing, the obligations in paragraphs (a) and (b) of this Section 5.01 may be satisfied with respect to financial information of the Borrower and its Subsidiaries by filing of the Borrower's form 10-K or 10-Q, as applicable, with the SEC.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent (for distribution to each Lender through the Administrative Agent) prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or, to the knowledge of a Financial Officer or another executive officer of the Borrower or any Subsidiary, affecting the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event or any fact or circumstance that gives rise to a reasonable expectation that any ERISA Event will occur that, in either case, alone or together with any other ERISA Events that have occurred or are reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect;

(d) any change in the Ratings, or any notice from S&P or Moody's indicating its intent to effect such a change or to place the Borrower on a "CreditWatch" or "WatchList" or any similar list, in each case with negative implications, or its cessation of, or its intent to cease, providing such Rating; and

(e) any other development (including notice of any claim or condition arising under or relating to any Environmental Law) that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under Section 5.02(a) shall be accompanied by a written statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto. Notwithstanding any other provision of this Section 5.02, the Borrower shall not be required to provide notice of any of the foregoing where the information provided would include confidential supervisory information or would otherwise contravene any applicable Requirement of Law or regulatory guidance.

SECTION 5.03. Information Regarding Collateral.

(a) The Borrower will furnish to the Administrative Agent prompt written notice of any change (i) in its corporate name, (ii) in its jurisdiction of incorporation or organization, (iii) in its organizational identification number or (iv) in its chief executive office. The Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral.

(b) At the time of delivery of financial statements pursuant to Section 5.01(a) or (b), the Borrower shall deliver to the Administrative Agent a certificate executed by a Financial Officer or chief legal officer of the Borrower setting forth the information required pursuant to Section 1 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Effective Date or the date of the most recent certificate delivered pursuant to this Section.

SECTION 5.04. Existence; Conduct of Business. The Borrower will, and will cause each Subsidiary to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.05. Payment of Obligations. The Borrower will, and will cause each Subsidiary to, pay its material obligations (other than Indebtedness and any obligations in respect of any Swap Agreements), including Tax liabilities, before the same shall become delinquent or in default, except where (a) (i) the validity or amount thereof is being contested in good faith by appropriate proceedings, (ii) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (iii) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation or (b) the failure to make payment could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.06. Maintenance of Properties. The Borrower will, and will cause each Subsidiary to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. The Borrower will, and will cause each Subsidiary to, maintain, with financially sound and reputable insurance companies, (a) insurance in such amounts (with no greater risk retention) and against such risks as is customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations and (b) all insurance as may be required by law or any other Loan Document.

SECTION 5.08. Books and Records; Inspection and Audit Rights. The Borrower will, and will cause each Subsidiary to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. To the extent permitted under any applicable Requirement of Law or regulatory guidance, the Borrower will, and will cause each Subsidiary to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants (*provided* that a representative of the Borrower is given the opportunity to be present), all at such reasonable times and as often as reasonably requested (*provided* that unless an Event of Default shall have occurred and be continuing, such visits shall be limited to once per year and coordinated through the Administrative Agent).

SECTION 5.09. Compliance with Laws. The Borrower will, and will cause each Subsidiary to, comply with all Requirements of Law with respect to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The Borrower will maintain in effect policies and procedures reasonably designed to promote compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

SECTION 5.10. Use of Proceeds. The proceeds of the Loans will be used for general corporate purposes (including Permitted Acquisitions and investments). No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. The Borrower will not request any Borrowing, and the Borrower shall not use the proceeds of any Borrowing (A) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (B) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, except to the extent licensed by OFAC or otherwise authorized under U.S. law or (C) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

SECTION 5.11. Subsidiaries. If any additional Subsidiary the Equity Interests of which are required to be pledged pursuant to the Collateral Requirement is formed or acquired after the Effective Date or any indirect Subsidiary becomes a direct Subsidiary, and in each case such Subsidiary's Equity Interests would be required to be pledged pursuant to the Collateral Requirement, the Borrower will, (a) within ten (10) Business Days (with respect to any Significant Subsidiary) and (y) within sixty (60) days (with respect to any Subsidiary that is not a Significant Subsidiary), in each case, after such Subsidiary is formed or acquired, redesignated or becomes a direct Subsidiary (in each case, as such date may be extended by the Administrative Agent in its sole discretion), notify the Administrative Agent thereof and cause the Collateral Requirement to be satisfied with respect to any Equity Interest in such Subsidiary owned by or on behalf of the Borrower.

SECTION 5.12. Further Assurances. The Borrower will execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that may be required under any applicable law, or that the Administrative Agent or the Required Lenders may reasonably request, to cause the Collateral Requirement to be and remain satisfied, all at the expense of the Borrower. The Borrower also agrees to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

SECTION 5.13. Registration Status. To the extent required by applicable law, the Borrower and its Subsidiaries shall maintain the Investment Adviser Companies' status as registered "investment advisers" under the Investment Advisers Act, except where the failure to maintain such registration would not be reasonably likely to have a Material Adverse Effect. The Borrower and its Subsidiaries shall maintain each Broker Dealer Regulated Subsidiary's (i) registration as registered "broker-dealers" under the Exchange Act and under the laws of each state in which such registration is required in connection and where a failure to obtain such registration would be likely to have a Material Adverse Effect, and (ii) to maintain its membership in FINRA, except where the failure to maintain such registration would not be reasonably likely to have a Material Adverse Effect. The Borrower and its Subsidiaries shall maintain each Bank Regulated Subsidiary's registration as a savings and loan holding company subject to regulation by the Board under section 10 of the Home Owners' Loan Act and Regulation LL.

SECTION 5.14. Regulatory Matters. The Borrower shall cause (a) (i) the Broker Dealer Regulated Subsidiaries to take all reasonable action to maintain all rights, privileges, broker-dealer licenses and memberships, broker-dealer registrations necessary or desirable in the normal conduct of its business, except, in each case, to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect, (ii) all Broker Dealer Regulated Subsidiaries to comply with all material rules and regulations of the SEC and FINRA applicable to it (including such rules and regulations dealing with net capital requirements) and, to the extent applicable to any Broker Dealer Regulated Subsidiary, all similar, equivalent or comparable foreign statutes, rules, regulations and other regulatory requirements, except, in each case, where the failure to so comply would not reasonably be expected to have a Material Adverse Effect and (iii) all Broker Dealer Regulated Subsidiaries to deliver after the end of each fiscal quarter of each fiscal year of the Borrower or soon after the date such information is filed with the SEC, a copy of each Broker Dealer Regulated Subsidiary's Financial and Operational Combined Uniform Single Report filed with the SEC for such fiscal quarter, (b) (i) all of its Investment Adviser Companies to take all reasonable action to maintain all rights, privileges and investment adviser registrations necessary or desirable in the normal conduct of its business, except, in each case, to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect, (ii) all of its Investment Adviser Companies to comply with all material rules and regulations of the SEC applicable to it and, to the extent applicable to any Investment Adviser Company, all similar, equivalent or comparable foreign statutes, rules, regulations, and other regulatory requirements, except, in each case, where the failure to so comply would not reasonably be expected to have a Material Adverse Effect, and (c) the Bank Regulated Subsidiaries to take all reasonable action to maintain all rights, privileges, licenses and memberships, registrations necessary or desirable in the normal conduct of its business, except, in each case, to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect, (ii) all Bank Regulated Subsidiaries to comply with all material rules and regulations of any Governmental Authority or Regulatory Supervising Organization applicable to it (including such rules and regulations dealing with minimum capitalization ratios and requirements) and, to the extent applicable to any Bank Regulated Subsidiary, all similar, equivalent or comparable foreign statutes, rules, regulations and other regulatory requirements, except, in each case, where the failure to so comply would not reasonably be expected to have a Material Adverse Effect.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees, expenses and other amounts payable (other than contingent amounts not yet due) under any Loan Document have been paid in full, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness; Certain Equity Securities.

(a) The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(i) Indebtedness created under the Loan Documents;

(ii) (x) The 2019 Notes, the 2019 Convertible Notes, the New Notes, the other Indebtedness existing on the date hereof and set forth in Schedule 6.01 (other than any Indebtedness permitted by Section 6.01(a)(xv)) and extensions, renewals and replacements of any such Indebtedness, provided that such extending, renewal or replacement Indebtedness (A) shall not be Indebtedness of an obligor that was not an obligor with respect to the Indebtedness being extended, renewed or replaced, (B) shall not be in a principal amount that exceeds the principal amount of the Indebtedness being extended, renewed or replaced (plus any accrued but unpaid interest and redemption premium payable by the terms of such Indebtedness thereon), (C) shall not have an earlier maturity date or shorter weighted average life than the Indebtedness being extended, renewed or replaced and (D) shall be subordinated to the Obligations on terms at least as favorable to the Lenders as the subordination terms (if any) of the Indebtedness being extended, renewed or replaced and (y) (I) prior to the 2016 Springing Maturity Date, the 2016 Notes (including the guarantees in respect thereof existing on the Effective Date) and (II) prior to the 2017 Springing Maturity Date, the 2017 Notes (including the guarantees in respect thereof existing on the Effective Date);

(iii) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary, provided that (A) Indebtedness of any Subsidiary to the Borrower shall be subject to Section 6.04 and (B) Indebtedness of the Borrower to any Subsidiary shall be subordinated to the Obligations on terms reasonably satisfactory to the Administrative Agent;

(iv) Guarantees (A) by the Borrower of Indebtedness of any Subsidiary that is permitted by this Section and (B) by any Subsidiary of Indebtedness of any other Subsidiary that is permitted by this Section (other than clause (a)(ii) and (a)(xv));

(v) (A) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations, Synthetic Lease Obligations and any Indebtedness assumed by the Borrower or any Subsidiary in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, provided that such Indebtedness is incurred prior to or within 270 days after such acquisition or the completion of such construction or improvement, and (B) extensions, renewals and replacements of any such Indebtedness so long as the outstanding principal amount of such extensions, renewals and replacements does not exceed the principal amount of the Indebtedness being extended, renewed or replaced (plus any accrued but unpaid interest and premium payable by the terms of such Indebtedness thereon), provided that no Indebtedness may be incurred under this clause (v) if, after giving effect to such incurrence, the aggregate principal amount of Indebtedness then outstanding under this clause (v) together with all Indebtedness under clause (a)(vi) of this Section that is secured by a Lien or incurred by a Subsidiary, exceeds $300,000,000 as of the date of such incurrence;

(vi) Indebtedness of the Borrower or any Subsidiary, provided that (A) the Borrower is in compliance, on a Pro Forma Basis after giving effect to the incurrence of such Indebtedness as of the last day of the most-recently ended fiscal quarter of the Borrower, with the Financial Covenants, and (B) no Indebtedness of any Subsidiary may be incurred under this clause (vi) if, after giving effect to such incurrence, the aggregate principal amount of Indebtedness of Subsidiaries then outstanding under this clause (vi), together with (1) the aggregate principal amount of Indebtedness of the Borrower then outstanding under this clause (vi) that is secured by a Lien on any assets of the Borrower and (2) the aggregate principal amount of Indebtedness then outstanding under clause (a)(v) of this Section, exceeds $300,000,000;

(vii) Indebtedness owed to any Person (including obligations in respect of letters of credit for the benefit of such Person) providing workers' compensation, health, disability or other employee benefits or property, casualty or liability insurance, pursuant to reimbursement or indemnification obligations to such Person, in each case incurred in the ordinary course of business;

(viii) Indebtedness of the Borrower or any Subsidiary in respect of performance bonds, bid bonds, appeal bonds, surety bonds, performance and completion guarantees and similar obligations (other than in respect of other Indebtedness), in each case provided in the ordinary course of business;

(ix) Indebtedness in respect of Swap Agreements not entered into for speculative purposes;

(x) Indebtedness or other obligations arising from products and services offered by Bank Regulated Subsidiaries, Broker Dealer Regulated Subsidiaries or Insurance Regulated Subsidiaries in the ordinary course including, but not limited to, deposits, CDs, prepaid forward contracts, swaps, exchangeable debt securities, foreign currency purchases or sales and letters of credit, customer activities and clearing and clearing-related activities (including, in each case, Indebtedness to finance such activities);

(xi) Indebtedness or other obligations incurred in the ordinary course arising from margin lending, Stock Loan activities, customer activities, clearing and clearing-related activities or foreign currency settlement obligations of a Broker Dealer Regulated Subsidiary (including, in each case, Indebtedness to finance such activities);

(xii) Indebtedness arising from agreements of the Borrower or a Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or a Subsidiary, other than Guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or a Subsidiary for the purpose of financing such acquisition;

(xiii) [Reserved];

(xiv) advances from a Federal Home Loan Bank, a Federal Reserve Bank, Fannie Mae or another institution similar to any of the foregoing, repurchase and reverse repurchase agreements relating to Investment Securities, medium term notes, treasury tax and loan balances, special direct investment balances, bank notes, commercial paper, term investment option balances, brokered certificates of deposit, dollar rolls and federal funds purchased, in each case incurred in the ordinary course of a Regulated Subsidiary's business; and

(xv) Indebtedness of a Bank Regulated Subsidiary consisting of trust preferred or similar securities, in each case, outstanding on the Effective Date (it being understood that such trust preferred or similar securities shall be permitted only under this clause (xv) and not under any other clause of this Section 6.01(a)).

Notwithstanding any other provision of this Section 6.01(a), (I) the Borrower shall not permit any Subsidiary to Guarantee all or any portion of the 2019 Notes, the 2019 Convertible Notes (other than with respect to any guarantees of the 2019 Convertible Notes that are in effect on the Effective Date) or the New Notes, (II) ETB Holdings shall not be permitted to incur any Indebtedness under this Section 6.01(a) after the Effective Date other than under Section 6.01(a)(iii) and (III) no Regulated Subsidiary shall incur any Indebtedness that is incurred for the purpose of contributing to or meeting any capital requirements applicable to itself or any other Regulated Subsidiary.

(b) The Borrower will not, and will not permit any Subsidiary to, issue any preferred Equity Interests except (i) in the case of the Borrower, preferred Equity Interests that are Qualified Equity Interests, (ii) Equity Interests permitted to be issued under Section 6.05(k), (iii) preferred Equity Interests issued by any Subsidiary to a wholly owned Subsidiary or (iv) in the case of a Regulated Subsidiary or a Subsidiary of a Regulated Subsidiary, preferred Equity Interests, provided that any issuance under this clause (b)(iv) shall reduce the amount of Indebtedness permitted to be incurred by Subsidiaries under Section 6.01(a)(vi).

SECTION 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Liens created under the Loan Documents;

(b) Permitted Encumbrances;

(c) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02, provided that (A) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (B) such Lien shall secure only those obligations that it secures on the date hereof and extensions, renewals and replacements thereof so long as the principal amount of such extensions, renewals and replacements does not exceed the principal amount of the obligations being extended, renewed or replaced (plus any accrued but unpaid interest and premium payable by the terms of such obligations thereon);

(d) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary (other than any Lien created after such Person was designated as a Subsidiary), provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (B) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (C) such Lien shall secure only those obligations that it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be, and extensions, renewals and replacements thereof so long as the principal amount of such extensions, renewals and replacements does not exceed the principal amount of the obligations being extended, renewed or replaced (plus any accrued but unpaid interest and premium payable by the terms of such obligations thereon);

(e) Liens on fixed or capital assets acquired, constructed or improved (including any such assets made the subject of a Capital Lease Obligation or Synthetic Lease Obligation incurred) by the Borrower or any Subsidiary, provided that (A) such Liens secure Indebtedness incurred to finance such acquisition, construction or improvement and permitted by clause (v)(A) of Section 6.01(a) or to extend, renew or replace such Indebtedness and permitted by clause (v)(B) of Section 6.01(a), (B) such Liens and the Indebtedness secured thereby are incurred prior to or within 270 days after such acquisition or the completion of such construction or improvement (provided that this clause (B) shall not apply to any Indebtedness permitted by clause (v)(B) of Section 6.01(a) or any Lien securing such Indebtedness), (C) the Indebtedness secured thereby does not exceed the lesser of the cost of acquiring, constructing or improving such fixed or capital asset or, in the case of Indebtedness permitted by clause (v)(A) of Section 6.01(a), its fair market value at the time such security interest attaches and (D) such Liens shall not apply to any other property or assets of the Borrower or any Subsidiary;

(f) Liens of a collecting bank arising in the ordinary course of business under Section 4-208 of the Uniform Commercial Code in effect in the relevant jurisdiction covering only the items being collected upon;

(g) Liens representing any interest or title of a licensor, lessor or sublicensor or sublessor under any lease or license permitted by this Agreement;

(h) Liens that are rights of setoff relating to deposit accounts in favor of banks and other depositary institutions arising in the ordinary course of business;

(i) Liens on assets of the Borrower (other than Equity Interests of a Bank Regulated Subsidiary or a direct or indirect holding company of a Bank Regulated Subsidiary) securing Indebtedness of the Borrower incurred pursuant to clause (vi) of Section 6.01(a), provided that no Lien shall be permitted under this clause (i) if, after giving effect to such Lien, the aggregate principal amount of Indebtedness of the Borrower then outstanding that is secured by a Lien on any assets of the Borrower, together with the aggregate principal amount of Indebtedness then outstanding under clause (a)(v) of Section 6.01 or secured by the Borrower or incurred by a Subsidiary as contemplated in the proviso to clause (a)(vi) of Section 6.01, exceeds $300,000,000;

(j) Liens granted by a Subsidiary in favor of the Borrower in respect of Indebtedness or other obligations owed by such Subsidiary to the Borrower;

(k) Liens arising from filing Uniform Commercial Code financing statements regarding leases;

(l) Liens securing reimbursement obligations with respect to letters of credit permitted by Section 6.01 that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(m) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(n) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Swap Agreements not entered into for speculative purposes;

(o) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Borrower or any of the Subsidiaries in the ordinary course of business in accordance with the past practices of the Borrower and its Subsidiaries prior to the Effective Date;

(p) Liens on assets of or held by a Regulated Subsidiary (including customer assets as to which such Regulated Subsidiary has a right of rehypothecation) in the ordinary course of such Regulated Subsidiary's business or to secure Indebtedness of a type described in clause (x), (xi) or (xiv) of Section 6.01(a);

(q) [Reserved];

(r) Liens arising from Permitted Investments described in clause (d) of the definition of the term "Permitted Investments";

(s) Liens incurred in the ordinary course of business in connection with clearing and clearing-related activities; and

(t) pledges and deposits made in the ordinary course of business in connection with clearing and clearing-related activities.

Notwithstanding any other provision of this Section 6.02, the Borrower shall not (x) permit any Lien to be created, incurred or assumed, or otherwise to exist, if as a result thereof the Borrower is required under the 2019 Indenture, the 2019 Convertible Indenture, the New Indenture or any other Indebtedness to grant a Lien on any asset of the Borrower or any Subsidiary securing all or any portion of the 2019 Notes, the 2019 Convertible Notes or the New Notes or (y) permit any Lien to exist on the Equity Interests of any Bank Regulated Subsidiary or Broker Dealer Regulated Subsidiary or a direct or indirect holding company of a Bank Regulated Subsidiary or Broker Dealer Regulated Subsidiary, as the case may be, in the case of this clause (y), other than (A) under the Loan Documents, (B) Liens arising by operation of any Requirement of Law, (C) Liens permitted under Section 6.02(d) and (D) Permitted Encumbrances of the types described in clauses (a) and (e) of the definition of "Permitted Encumbrance."

SECTION 6.03. Fundamental Changes.

(a) The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof no Event of Default shall have occurred and be continuing and immediately after giving effect thereto no Default or Event of Default shall result therefrom (i) any

Person may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Person (other than the Borrower) may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary and (iii) any Subsidiary may liquidate or dissolve if the Borrower (including through its officers' authority) determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders, provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Sections 6.04 and 6.05. In addition,(A) any Subsidiary other than ETB Holdings, E*TRADE Bank, E*TRADE Clearing or E*TRADE Securities (the "Specified Entities") may merge into or consolidate with any other Person, and any other Person (other than the Borrower) may merge into or consolidate with it, or liquidate or dissolve, as may be required pursuant to any applicable Requirement of Law or regulatory guidance or otherwise as required by any Bank Regulatory Authority or other Governmental Authority; provided that the surviving entity in any such merger or consolidation shall be a Subsidiary or the assets of such Subsidiary that dissolves or liquidates are transferred to the Borrower or another Subsidiary and (B) either of E*TRADE Securities and E*TRADE Clearing may merge with or into, consolidate with, or liquidate or dissolve into, the other.

(b) The Borrower will not, and will not permit any Subsidiary to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the Effective Date and businesses reasonably related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any Subsidiary to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any Equity Interests in or evidences of Indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) Permitted Acquisitions, provided that the Borrower is in compliance, on a Pro Forma Basis after giving effect to such Permitted Acquisition as of the last day of the most-recently ended fiscal quarter of the Borrower, with the Financial Covenants;

(c) investments existing on the date hereof and set forth on Schedule 6.04;

(d) investments by the Borrower and any Subsidiary in Equity Interests of any Subsidiary;

(e) (i) loans or advances made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary, provided that any such loans and advances made by the Borrower shall be evidenced by a promissory note (which may be a master note with varying principal amount) pledged pursuant to the Collateral Agreement to the extent required by the Collateral and Guarantee Requirement and %4. deposits by the Borrower with any Subsidiary or by any Subsidiary with the Borrower or any other Subsidiary;

(f) Guarantees of (i). Indebtedness of the Borrower or any Subsidiary that are permitted by Section 6.01 and (ii) the type described in clause (c) of the definition thereof;

(g) loans or advances to employees of the Borrower or any Subsidiary made in the ordinary course of business of the Borrower or any Subsidiary not exceeding $5,000,000 in the aggregate outstanding at any time (determined without regard to any write-downs or write-offs of such loans or advances), provided that no such loans or advances to any single employee shall exceed $1,000,000 in the aggregate outstanding at any time (determined without regard to any write-downs or write-offs of such loans or advances);

(h) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses of the Borrower or any Subsidiary for accounting purposes and that are made in the ordinary course of business;

(i) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(j) investments in the form of Swap Agreements not entered into for speculative purposes;

(k) investments of any Person existing at the time such Person becomes a Subsidiary or consolidates or merges with the Borrower or any Subsidiary (including in connection with a Permitted Acquisition) so long as such investments were not made in contemplation of such Person becoming a Subsidiary or of such consolidation or merger;

(l) investments resulting from pledges or deposits described in clause (c) or (d) of the definition of the term "Permitted Encumbrance";

(m) investments received in connection with the disposition of any asset permitted by Section 6.05;

(n) receivables or other trade payables owing to the Borrower or a Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms, provided that such trade terms may include such concessionary trade terms as the Borrower or any Subsidiary deems reasonable under the circumstances;

(o) investments, loans and guarantees (i) arising from products and services offered by Bank Regulated Subsidiaries or Broker Dealer Regulated Subsidiaries, (ii) made by Bank Regulated Subsidiaries or Broker Dealer Regulated Subsidiaries and (iii) any deposits or assets pledged in connection with clearing and clearing-related activities, in each of clauses (i), (ii) and (iii) in the ordinary course of business, including margin loans, Stock Loans, mortgages, home equity lines of credit, clearing and clearing-related activities, other customer financings and investments made pursuant to the Community Reinvestment Act;

(p) [Reserved];

(q) investments acquired as a capital contribution to, or in exchange for, or out of the proceeds of a substantially concurrent offering of, Equity Interests (other than Disqualified Equity Interests) of the Borrower; and

(r) other investments, loans and advances by the Borrower or any Subsidiary in an aggregate amount, as valued at cost as of the date of each such investment, loan or advance is made and including all related commitments for future investments, loans or advances (and the principal amount of any Indebtedness that is assumed or otherwise incurred in connection with such investment, loan or advance), provided that no investments, loans or advances may be made under this clause (r) if, after giving effect to such investment, loan or advance, the aggregate amount of investments, loans and advances made or committed to be made from and after the Effective Date under this clause (r) would exceed the sum of (i) 5.0% of Consolidated Net Worth as of such date, (ii) the maximum amount of Restricted Payments that may be made under Section 6.08(a) as of such date and (iii) without duplication of any amounts included in clause (q) above and Section 6.08(a), an amount equal to any returns of capital or sale proceeds actually received in cash in respect of any such investments.

SECTION 6.05. Asset Sales. The Borrower will not, and will not permit any Subsidiary to, sell, transfer, lease or otherwise dispose of any asset, including any Equity Interest owned by it, nor will the Borrower permit any Subsidiary to issue any additional Equity Interest in such Subsidiary (other than issuing directors' qualifying shares and other than issuing Equity Interests to another Subsidiary in compliance with Section 6.04(d)), except:

(a) sales, transfers, leases and other dispositions of (i) inventory, (ii) used, damaged, worn-out, obsolete or surplus assets and (iii) Permitted Investments, in each case in the ordinary course of business;

(b) sales, transfers, leases and other dispositions to the Borrower or a Subsidiary, provided that any such sales, transfers, leases or other dispositions involving the Borrower shall be made in compliance with Section 6.09;

(c) sales, transfers and other dispositions of accounts receivable in connection with the compromise, settlement or collection thereof consistent with past practice;

(d) sales, transfers, leases and other dispositions of property to the extent that such property constitutes an investment permitted by clause (i) or (k) of Section 6.04 or another asset received as consideration for the disposition of any asset permitted by this Section (in each case, other than Equity Interests in a Subsidiary, unless all Equity Interests in such Subsidiary are sold);

(e) sale and leaseback transactions permitted by Section 6.06;

(f) leases and subleases entered into in the ordinary course of business, to the extent that they do not materially interfere with the business of the Borrower or any Subsidiary;

(g) licenses or sublicenses of intellectual property in the ordinary course of business, to the extent that they do not materially interfere with the business of the Borrower or any Subsidiary;

(h) dispositions resulting from any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of the Borrower or any Subsidiary;

(i) sales, transfer or other dispositions of assets by Regulated Subsidiaries in the ordinary course of business (including pursuant to securitizations under, and foreclosures to satisfy Indebtedness permitted under, clause (x), (xi), (xiv) or (xv) of Section 6.01(a) which is secured by a Lien on the property so foreclosed upon);

(j) sales of Equity Interests in a Regulated Subsidiary that is an Insignificant Subsidiary or all or substantially all of the assets (or an operating unit of business) of a Regulated Subsidiary that is an Insignificant Subsidiary (other than in connection with a transaction permitted by Section 6.03), provided that no sale may be consummated under this clause (j) if, after giving effect thereto, (i) the aggregate fair market value of all such Regulated Subsidiaries sold after the Effective Date under this clause (j) would exceed 15.0% of the consolidated total assets of the Borrower and its Regulated Subsidiaries as of the last day of the fiscal quarter of the Borrower most-recently ended or (ii) the aggregate revenues of all such Regulated Subsidiaries sold after the Effective Date under this clause (j), determined in each case based upon the four fiscal quarters of the Borrower most-recently ended prior to the sale of such Regulated Subsidiary, would exceed 15.0% of the consolidated total revenues of the Borrower and its Subsidiaries during the four-fiscal-quarter period of the Borrower most-recently ended;

(k) sales, transfers and other dispositions of (i) any asset with a fair market value equal to or less than $2,500,000 and (ii) Equity Interests in any entity that is not a Subsidiary;

(l) sales, transfers and other dispositions of assets (other than Equity Interests in a Subsidiary unless all Equity Interests in such Subsidiary are sold) that are not permitted by any other clause of this Section, provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (l) in any fiscal year of the Borrower shall not exceed 7.5% of Consolidated Net Worth as of the first day of such fiscal year of the Borrower; and

(m) to the extent permitted by Section 6.01(b), sales of Equity Interests, other than common Equity Interests, by a Regulated Subsidiary or a Subsidiary of such Regulated Subsidiary,

provided that all sales, transfers, leases and other dispositions permitted by clause (j) or (l) shall be made for fair value and for at least 75% cash consideration payable at the time of such sale, transfer or other disposition.

SECTION 6.06. Sale and Leaseback Transactions. Except for the transaction described on Schedule 6.06, the Borrower will not, and will not permit any Subsidiary to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or capital assets by the Borrower or any Subsidiary that is made for cash consideration in an amount not less than the fair value of such fixed or capital asset and is consummated within 90 days after the Borrower or such Subsidiary acquires or completes the construction of such fixed or capital asset, provided that, if such sale and leaseback results in a Capital Lease Obligation or Synthetic Lease Obligation, such Capital Lease Obligation or Synthetic Lease Obligation is permitted by Section 6.01(a)(v) and any Lien made the subject of such Capital Lease Obligation or Synthetic Lease Obligation is permitted by Section 6.02(e).

SECTION 6.07. [Reserved].

SECTION 6.08. Restricted Payments; Certain Payments of Indebtedness.

(a) The Borrower will not, and will not permit any Subsidiary to, directly or indirectly:

(i) declare or pay any dividend or make any distribution on or with respect to its Equity Interests held by Persons other than the Borrower or any of its Subsidiaries (other than (A) dividends or distributions payable solely in its Equity Interests (other than Disqualified Equity Interests) or in options, warrants or other rights to acquire such Equity Interests, (B) pro rata dividends or distributions on common stock of Subsidiaries held by minority stockholders, (C) dividends or distributions on non-voting preferred Equity Interests the proceeds from the sale of which were invested in the business of such Regulated Subsidiary (or any Subsidiary of such Regulated Subsidiary which is also a Regulated Subsidiary), and (D) pro rata dividends on preferred Equity Interests of Subsidiaries that are real estate investment trusts, including Highland REIT, Inc., held by minority stockholders;

(ii) purchase, call for redemption or redeem, retire or otherwise acquire for value any Equity Interests of (A) the Borrower (including options, warrants or other rights to acquire such Equity Interests) held by any Person (other than the Borrower or any Subsidiary) or (B) a Subsidiary (including options, warrants or other rights to acquire such Equity Interests) held by any Affiliate of the Borrower (other than the Borrower or a wholly owned Subsidiary); or

(iii) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness of the Borrower that is subordinated in right of payment to the Loans; (such payments or any other actions described in clauses (i) through (iii) above being collectively "Restricted Payments");

if, at the time of, and after giving effect to, the proposed Restricted Payment: (A) a Default or Event of Default shall have occurred and be continuing; (B) the Borrower could not incur at least $1.00 of Indebtedness and maintain a Fixed Charge Coverage Ratio as calculated herein of at least 2.00:1:00; (C) the Subsidiary subject to the Restricted Payment is both a Regulated Subsidiary and a Significant Subsidiary that is not in compliance with applicable regulatory capital or other material requirements of its regulators, such as the OCC, FDIC or Board, or any applicable state, federal or self-regulatory organization, or would fail to be in compliance with applicable regulatory requirements as a consequence of the payment; or (D) the aggregate amount of all Restricted Payments made after the Effective Date shall exceed (I) the sum of (w) 50% of the aggregate amount of the Adjusted Consolidated Net Income (or, if the Adjusted Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter in which the Effective Date falls and ending on the last day of such fiscal quarter preceding the date such Restricted Payment is to be made for which financial statements shall have been delivered pursuant to Section 5.01(a) or (b), taken as a single accounting period plus (x) the aggregate net proceeds received by the Borrower after the Effective Date as a capital contribution or from the issuance and sale of its Equity Interests (other than Disqualified Equity Interests, preferred Equity Interests, Equity Interests applied pursuant to Section 6.04(q) or Excluded Contributions) to a Person who is not a Subsidiary of the Borrower, including an issuance or sale permitted by this Agreement of Indebtedness of the Borrower for cash subsequent to the Effective Date upon the conversion of such Indebtedness into Equity Interests (other than Disqualified Equity Interests) of the Borrower, or from the issuance to a Person who is not a Subsidiary of the Borrower of any options, warrants or other rights to acquire Equity Interests of the Borrower (in each case, exclusive of any Disqualified Equity Interests or any options, warrants or other rights that are redeemable at the option of the holder, or are required to be redeemed, prior to the Maturity Date of the Loans), plus (y) an amount equal to the net reduction in investments (other than reductions in investments permitted by Section 6.04 (other than Section 6.04(r)(ii)) in any Person resulting from payments of interest on Indebtedness, dividends, repayments of loans or advances, or other transfers of assets, in each case to the Borrower or any Subsidiary or from the net proceeds from the sale of any such investment (except, in each case, to the extent any such payment or proceeds are included in the calculation of Adjusted Consolidated Net Income), not to exceed, in each case, the amount of investments previously made by the Borrower or any Subsidiary in such Person plus (z) $100,000,000 minus (II) the aggregate amount of all investments, loans and advances made in reliance on clause (r)(ii) of Section 6.04 since the Effective Date.

(b) The foregoing provision shall not be violated by reason of:

(i) the payment of any dividend or redemption of any Equity Interests within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(ii) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness that is subordinated in right of payment to the Loans including premium, if any, and accrued interest, with the proceeds of, or in exchange for, indebtedness incurred under Section 6.01(a)(ii) or Refinancing Indebtedness in respect thereof;

(iii) the repurchase, redemption or other acquisition of Equity Interests of the Borrower or a Subsidiary (or options, warrants or other rights to acquire such Equity Interests) or a dividend on such Equity Interests in exchange for, or out of the proceeds of a capital contribution or a substantially concurrent offering of, Equity Interests (other than Disqualified Equity Interests) of the Borrower (or options, warrants or other rights to acquire such Equity Interests); *provided* that such options, warrants or other rights are not redeemable at the option of the holder, or required to be redeemed, in each case other than in connection with a Change of Control of the Borrower, prior to the Maturity Date;

(iv) the making of any principal payment or the repurchase, redemption, retirement, defeasance or other acquisition for value of Indebtedness which is subordinated in right of payment to the Obligations in exchange for, or out of the proceeds of a capital contribution or a substantially concurrent offering of, Equity Interests (other than Disqualified Equity Interests) of the Borrower (or options, warrants or other rights to acquire such Equity Interests); *provided* that such options, warrants or other rights are not redeemable at the option of the holder, or required to be redeemed, in each case other than in connection with a "change of control" of the Borrower, prior to the Maturity Date;

(v) payments or distributions to dissenting stockholders pursuant to applicable law, pursuant to or in connection with a consolidation, merger or transfer of assets of the Borrower, any Subsidiary or any Regulated Subsidiary and that, in the case of the Borrower, comply with the provisions of this Indenture applicable to mergers, consolidations and transfers of all or substantially all of the property and assets of the Borrower; the repurchase of Equity Interests deemed to occur upon the exercise of options or warrants if such Equity Interests represents all or a portion of the exercise price thereof;

(vi) the repurchase of Equity Interests deemed to occur upon the exercise of options or warrants if such Equity Interests represents all or a portion of the exercise price thereof;

(vii) the repurchase, redemption or other acquisition of the Borrower's Equity Interests (or options, warrants or other rights to acquire such Equity Interests) from Persons who are, or were formerly directors or employees of the Borrower and their Affiliates, heirs and executors upon the death, disability, retirement or termination of employment of any such Person or otherwise in accordance with any management equity plan or stock option plan or any other management or employee benefit plan or other agreement or arrangement; provided that the aggregate amount of all such repurchases pursuant to this clause (iv) shall not exceed $50,000,000;

(viii) Restricted Payments by the Borrower or any Subsidiary to allow the payment of cash in lieu of the issuance of fractional shares upon the exercise of options or warrants or upon the conversion or exchange of Equity Interests or debt securities that are convertible into, or exchangeable for, Equity Interests of any such Person; and

(ix) Restricted Payments in an amount not to exceed the amount of Excluded Contributions received since the Effective Date;

provided that, except in the case of clause (i), no Default or Event of Default shall have occurred and be continuing or occur as a consequence of the actions or payments set forth therein.

(c) Each Restricted Payment permitted pursuant to Section 6.08(b) (other than the Restricted Payment referred to in clause (ii) thereof, the repurchase of Equity Interests referred to in clause (iv) thereof and Restricted Payments referred to in clause (vii) thereof), shall be included in calculating whether the conditions in Section 6.08(a) have been met with respect to any subsequent Restricted Payments. If the proceeds of an issuance of Equity Interests of the Borrower are used for the redemption, repurchase or other acquisition of the Loans, or Indebtedness that is pari passu with such Loans, then the net proceeds of such issuance shall be included in Section 6.08(a) only to the extent such proceeds are not used for such redemption, repurchase or other acquisition of Indebtedness.

(d) For purposes of determining compliance with this Section 6.08, the amount, if other than in cash, of any Restricted Payment shall be determined in good faith by the board of directors of the Borrower (or a committee thereof), whose determination shall be conclusive and evidenced by a resolution of the board of directors of the Borrower (or such committee). If a Restricted Payment meets the criteria of more than one of the types of Restricted Payments described in the above clauses, including the first paragraph of this Section 6.08, the Borrower, in its sole discretion, may order and classify, and from time to time may reclassify, such Restricted Payment if it would have been permitted at the time such Restricted Payment was made and at the time of such reclassification.

SECTION 6.09. Transactions with Affiliates. The Borrower will not, and will not permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) loans or advances to employees permitted under Section 6.04(g), (c) payroll, travel and similar advances to cover matters permitted under Section 6.04(h), (d) the payment of reasonable fees to directors of the Borrower or any Subsidiary who are not employees of the Borrower or any Subsidiary, and compensation and employee benefit arrangements paid to, and indemnities provided for the benefit of, directors, officers or employees of the Borrower or any of the Subsidiaries in the ordinary course of business, (e) any issuances of securities or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, stock options and stock ownership plans approved by the Borrower's board of directors (or a committee thereof), (f) employment and severance arrangements entered into in the ordinary course of business between the Borrower or any Subsidiary and any employee thereof and approved by the Borrower's board of directors (or a committee thereof), (g) any Restricted Payment permitted by Section 6.08, (h) any transaction solely between or among the Borrower and its wholly-owned Subsidiaries, (i) any payments or other transactions pursuant to any tax-sharing agreement between the Borrower and any Subsidiaries with which the Borrower files a consolidated, unified , combined or group tax return, (j) deposit, checking, banking and brokerage products and services typically offered to customers on substantially the same terms and conditions as those offered to customers or, in the case of a Bank Regulated Subsidiary, as otherwise permitted under Regulation O promulgated by the Board and (k) any issuance or sale of Equity Interests (other than Disqualified Equity Interests) of the Borrower.

SECTION 6.10. Restrictive Agreements. The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower to create, incur or permit to exist any Lien upon any Equity Interests held by the Borrower of any Subsidiary that is not a Bank Regulated Subsidiary or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any of its Equity Interests or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary, provided that (i) the foregoing shall not apply to restrictions and conditions imposed by (A) any Requirements of Law or (B) any Loan Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.10 (or to any extension or renewal of, or any amendment, modification or replacement not expanding the scope of, any such restriction or condition) and (iii) the foregoing shall not apply to restrictions and conditions (A) (1) in any indentures or agreements governing Indebtedness permitted under Section 6.01, provided that the encumbrances and restrictions in any such indentures or agreements are no less favorable to the Lenders in any material respect than those encumbrances or restrictions contained in the 2019 Indenture), (2) in any agreements governing Indebtedness of a type described in clause (x), (xi), (xiv) or (xv) of Section 6.01 consisting of customary financial covenants, minimum net worth requirements or collateral coverage requirements that in the reasonable judgment of the Borrower do not impair its ability to comply with its obligations in respect of the Obligations and (3) restrictions on cash or other deposits imposed by customers on any Regulated Subsidiaries under contracts entered into in the ordinary course of business, (B) with respect to any Person (or the property or assets of any Person) acquired by the Borrower or any Subsidiary and existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or any property or assets of any Person other than such Person or the property or assets of such Person so acquired and any extensions, refinancings, renewals or replacements of thereof, provided that the encumbrances and restrictions in any such extensions, refinancings, renewals or replacements are no less favorable to the Lenders in any material respect than those encumbrances or restrictions that are being extended, refinanced, renewed or replaced, or (C) existing by virtue of any transfer of, any agreement to transfer, any option or similar right with respect to, or any Lien on, any property or assets of the Borrower or any Subsidiary, in each case not otherwise prohibited by this Agreement.

SECTION 6.11. Amendment of Material Documents. The Borrower will not, and will not permit any Subsidiary to, amend, modify, waive, terminate or release (a) its Organizational Documents or (b) the Indebtedness permitted under Section 6.01(a)(ii), in each case unless such amendment, modification, waiver, termination or release is (i) not materially adverse to the Lenders or (ii) required by any Requirement of Law.

SECTION 6.12. Fixed Charge Coverage Ratio. The Borrower will not permit the Fixed Charge Coverage Ratio of the Borrower and its Subsidiaries on a consolidated basis, in each case for any period of four consecutive fiscal quarters of the Borrower ending on or after the Effective Date to be less than 1.50:1.00.

SECTION 6.13. Leverage Ratio. The Borrower will not permit the Leverage Ratio of the Borrower and its Subsidiaries on a consolidated basis as of the last day of any fiscal quarter of the Borrower ending on or after the Effective Date to be greater than 4.00:1.00.

SECTION 6.14. Asset Quality Ratio. The Borrower, together with its Subsidiaries, will not permit the Asset Quality Ratio of itself and its Subsidiaries, in each case for any period of four consecutive fiscal quarters of the Borrower ending on or after the Effective Date, to be greater than 20%.

SECTION 6.15. Maintenance of Capitalization. The Borrower (a) will not permit (i) the Borrower and its Subsidiaries on a consolidated basis (calculated in a manner consistent with such calculation in the Borrower's Form 10-Q filed with the SEC for the fiscal quarter ended September 30, 2014), (ii) the Borrower and its Subsidiaries on a consolidated basis (calculated in accordance with Basel III) and (iii) any Bank Regulated Subsidiary, in each case of this clause (a), to fail to be at least Well Capitalized at any time and (b) will not permit either of E*TRADE Clearing's or E*TRADE Securities' net capital to be less than the greater of (i) 5.0% of such firm's aggregate debit items, and (ii) 150% of the minimum dollar amount specified in Rule 15c3-1(a)(ii) (which, for the avoidance of doubt is currently $250,000). As used in this clause, the terms "net capital" and "aggregate debit items" shall be as defined or used in Rule 15c3-1 under the Exchange Act, as in effect from time to time.

SECTION 6.16. Changes in Fiscal Periods . The Borrower will not (a) permit its fiscal year or the fiscal year of any Subsidiary (other than any Insignificant Subsidiary) to end on a day other than December 31 or (b) change its method of determining fiscal quarters.

SECTION 6.17. Corporate Cash. At all times after the Effective Date, the Borrower will not permit Corporate Cash to be less than $100,000,000 for more than five (5) days in any fiscal quarter.

ARTICLE VII

Events of Default

SECTION 7.01. Events of Default. If any of the following events (any such event, an "Event of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in paragraph (a) of this Article) payable under any Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall, if qualified by materiality, prove to have been incorrect or, if not so qualified, prove to have been incorrect in any material respect, in each case when made or deemed made;

(d) the Borrower or any of its Subsidiaries shall fail to observe or perform any covenant, condition or agreement contained in Sections 5.02(a), 5.04 (with respect to the Borrower), 5.10 or in Article VI;

(e) the Borrower or any of its Subsidiaries shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in paragraph (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of (i) with respect to Section 5.11, 5 Business Days and (ii) otherwise, 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) (i) any event or condition occurs (A) that results in any Material Indebtedness of the Borrower or any of its Subsidiaries becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity or (ii) any Regulated Subsidiary shall default in any payment of any Material Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Material Indebtedness was created, provided that (1) this paragraph (g) shall not apply to secured Indebtedness that becomes due as a result of the sale, transfer or other disposition (including as a result of a casualty or condemnation event) of the property or assets securing such Indebtedness (to the extent such sale, transfer or other disposition is not prohibited under this Agreement) and (2) clause (i) of this paragraph (g) shall not apply to

Indebtedness of a Regulated Subsidiary of the type described in clause (x), (xi), (xiv) or (xv) of Section 6.01(a);

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in paragraph (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any of its Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of $25,000,000 shall be rendered against the Borrower, any of its Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

(l) an ERISA Event shall have occurred that, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material adverse Effect;

(m) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by the Borrower or any of its Subsidiaries not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document, except (i) as a result of the sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents or (ii) as a result of the Administrative Agent’s failure to maintain possession of any stock certificates, promissory notes or other instruments delivered to it under the Collateral Agreement;

(n) any Loan Document shall for any reason be asserted by the Borrower not to be a legal, valid and binding obligation of the Borrower and its Subsidiaries;

(o) (i) any Subordinated Debt shall cease, for any reason, to be, or shall be asserted by the Borrower or the holders of at least 25% in aggregate principal amount of any series of

Subordinated Debt not to be, validly subordinated to the Loan Document Obligations as provided in the applicable Subordinated Debt Documents or (ii) the Loan Document Obligations shall cease to constitute, or shall be asserted by the Borrower or the holders of at least 25% in aggregate principal amount of any series of Subordinated Debt not to constitute, "Senior Indebtedness" or "Designated Senior Indebtedness" (or the equivalent thereof) under the subordination provisions of any Subordinated Debt Document; or

(p) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower or any of its Subsidiaries described in paragraph (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

SECTION 7.02. Exclusion of Certain Subsidiaries. Solely for the purposes of determining whether a Default has occurred under paragraph (h), (i), (j) or (k) of Section 7.01, any reference in any such paragraph to any Subsidiary shall be deemed not to include any Subsidiary affected by any event or circumstance referred to in such paragraph that (a) did not, as of the last day of the fiscal quarter of the Borrower most-recently ended, have assets with a fair market value equal to or greater than 5.0% of the consolidated total assets of the Borrower and its Subsidiaries as of such date and (b) did not have revenues during the four fiscal quarter period of the Borrower most-recently ended equal to or greater than 7.5% of the consolidated total revenues of the Borrower and its Subsidiaries during such period (any such Subsidiary, an "Insignificant Subsidiary"), provided that if it is necessary to exclude more than one Subsidiary from paragraph (h), (i), (j) or (k) of Section 7.01 pursuant to this paragraph in order to avoid a Default, the aggregate fair market value of the assets of all such excluded Subsidiaries as of such last day may not exceed 15.0% of the consolidated total assets of the Borrower and its Subsidiaries as of such date and the aggregate revenues of all such excluded Subsidiaries for such four fiscal quarter period may not exceed 15.0% of the consolidated total revenues of the Borrower and its Subsidiaries for such period.

ARTICLE VIII

The Administrative Agent

Each of the Lenders hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders, and the Borrower shall not have rights as a third party beneficiary of any such provisions. The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary or believed by the Administrative Agent in good faith to be necessary under the circumstances as provided in Section 9.02) and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any Subsidiary that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document or the occurrence of any Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent that shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under the Loan Documents. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Each Lender acknowledges and agrees that the extensions of credit made hereunder are commercial loans and not investments in a business enterprise or securities. Each Lender further represents that it is engaged in making, acquiring or holding commercial loans in the ordinary course of its business and has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement as a Lender, and to make, acquire or hold Loans hereunder. Each Lender shall, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information (which may contain material, non-public information within the meaning of the United States securities laws concerning the Borrower and its Affiliates) as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, or any related agreement or any document furnished hereunder or thereunder and in deciding whether or to the extent to which it will continue as a Lender or assign or otherwise transfer its rights, interests and obligations hereunder. Notwithstanding anything herein to the contrary, none of the Syndication Agent, Joint Bookrunners or Lead Arrangers listed on the cover page hereof shall have any powers, duties or responsibilities under any Loan Document, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

To the extent required by any applicable law, the Administrative Agent shall withhold from any payment to any Lender an amount equal to any applicable withholding Tax. If the IRS or any Governmental Authority asserts a claim that the Administrative Agent did not properly withhold Tax from any amount paid to or for the account of any Lender for any reason (including because the appropriate form was not delivered or was not properly executed, or because such Lender failed to notify the Administrative Agent of a change in circumstances that rendered the exemption from, or reduction of, withholding Tax ineffective), such Lender shall indemnify and hold harmless the Administrative Agent (to the extent that the Administrative Agent has not already been reimbursed by the Borrower and without limiting or expanding the obligation of the Borrower to do so) for all amounts paid, directly or indirectly, by the Administrative Agent as tax or otherwise, including any penalties, additions to Tax or interest thereon, together with all expenses incurred, including legal expenses and any out-of-pocket expenses, whether or not such Tax was correctly or legally imposed or asserted by the relevant Government Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under this Agreement or any other Loan Document against any amount due to the Administrative Agent. The agreements in this paragraph shall survive the resignation and/or replacement of the Administrative Agent, any assignment of rights by, or the replacement of, a Lender, the termination of the Loans and the repayment, satisfaction or discharge of all obligations under this Agreement.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile, as follows:

(a) to the Borrower, to it at E*TRADE Financial Corporation, 1271 Avenue of the Americas, 14th Floor, New York, NY 10021, Attention of Matthew J. Audette (Facsimile: 703-236-7397) and Karl A. Roessner (Facsimile: 571-227-0365), with a copy to Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York 10017, Attention of Monica Holland (Facsimile: 212-701-5307);

(b) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., 500 Stanton Christiana Road, Ops 2, Floor 03, Newark, DE 19713-2107, United States, Attention Suzie Coplin (Facsimile: 302-634-5545) (email: 12012443577@TLS.Idsprod.com);

(c) if to any other Lender, to it at its address (or facsimile number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or facsimile number for notices and other communications hereunder by notice to the other parties hereto. Notices and other communications to the Lenders hereunder may be delivered or furnished by using Electronic Systems pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient, at its e-mail address as described in the foregoing clause (i), of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii) above, if such notice, email or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient. Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through Electronic Systems, to the extent provided in paragraph (b) below, shall be effective as provided above.

The Borrower agrees that the Administrative Agent may, but shall not be obligated to, make Communications (as defined below) available to the Lenders by posting the Communications on Debt Domain, Intralinks, Syndtrak, ClearPar or a substantially similar Electronic System.

Any Electronic System used by the Administrative Agent is provided "as is" and "as available." The Agent Parties (as defined below) do not warrant the adequacy of such Electronic Systems and expressly disclaim liability for errors or omissions in the Communications. No warranty of any kind, express, implied or statutory, including any warranty of merchantability, fitness for a particular purpose, non-infringement of third-party rights or freedom from viruses or other code defects, is made by any Agent Party in connection with the Communications or any Electronic System. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "***Agent Parties***") have any liability to the Borrower, any Lender or any other Person or entity for damages of any kind, including direct or indirect, special, incidental or consequential damages, losses or expenses (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of communications through an Electronic System. "***Communications***" means, collectively, any notice, demand, communication, information, document or other material provided by or on behalf of the Borrower pursuant to any Loan Document or the transactions contemplated therein which is distributed by the Administrative Agent or any Lender by means of electronic communications pursuant to this Section, including through an Electronic System.

SECTION 9.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither any Loan Document nor any provision thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders, provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the maturity of any Loan, or any date for the payment of the principal amount of any Loan or any interest or fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.15(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender adversely affected thereby, (v) change any of the provisions of this Section or the percentage set forth in the definition of the term "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender (it being understood that, with the consent of the Required Lenders, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Lenders on substantially the same basis as the Commitments on the date hereof) or (vi) release all or substantially all the Collateral from the Liens of the Security Documents, without the written consent of each Lender, provided further, that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent without the prior written consent of the Administrative Agent.

(c) In connection with any proposed amendment, modification, waiver or termination (a "Proposed Change") requiring the consent of all Lenders or all affected Lenders, if the consent of the Required Lenders to such Proposed Change is obtained, but the consent to such Proposed Change of other Lenders whose consent is required is not obtained (any such Lender whose consent is not obtained as described in paragraph (b) of this Section being referred to as a "Non-Consenting Lender"), then, so long as the Lender that is acting as Administrative Agent is not a Non-Consenting Lender, the Borrower may, at its sole expense and effort, upon notice to such Non-Consenting Lender and the Administrative Agent, require such Non-Consenting Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all (but not less than all) its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that (a) to the extent an assignment to such Lender would require the consent of the Administrative Agent under Section 9.04, the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (b) such Non-Consenting Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (c) the Borrower or such assignee shall have paid to the Administrative Agent the processing and recordation fee specified in Section 9.04(b).

SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates and the Lead Arrangers, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) or in connection with an Incremental Assumption Agreement and the transactions contemplated thereby, but limited in the case of fees and expenses of counsel to reasonable fees, disbursements and other charges of a single counsel to the Administrative Agent and the Lead Arrangers, and, if reasonable necessary, of a single local counsel to the Administrative Agent and the Lead Arrangers in such relevant jurisdiction, which may be a single local counsel acting in multiple jurisdictions and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent or any Lender or Lead Arranger, including the fees, charges and disbursements of any counsel for any Agent or any Lender or Lead Arranger, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans, but limited in the case of fees and expenses of counsel to reasonable fees, disbursements and other charges of one counsel to the Administrative Agent and one counsel to the Lenders taken as whole and, if reasonably necessary, of a single local counsel to the Administrative Agent and a single local counsel to the Lenders in each relevant jurisdiction, which may be a single local counsel acting in multiple jurisdictions and, in the case of an actual or potential conflict of interest, one additional counsel to the affected persons.

(b) The Borrower shall indemnify the Administrative Agent and each Lender, the Lead Arrangers, the Administrative Agent and each Related Party of any of the foregoing Persons (each such

Person being called an “Indemnitee”), against, and hold each Indemnitee harmless from, any and all losses, claims, damages, investigation, suit or proceeding, liabilities and related expenses, including the fees, charges and disbursements of any counsel, but limited to reasonable fees, disbursements and other charges of one counsel to the Indemnitees and, if reasonably necessary, of a single local counsel to the Indemnitees in each relevant jurisdiction, which may be a single local counsel acting in multiple jurisdictions and, in the case of an actual or potential conflict of interest, one additional counsel to the affected persons, incurred by or asserted against any Indemnitee by any third party or by the Borrower or any Subsidiary arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated thereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated thereby, (ii) any Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Borrower or any Subsidiary, or any Environmental Liability related in any way to the Borrower or any Subsidiary, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any equity holders, Affiliates, creditors and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, costs, expenses or liabilities or related expenses are (x) determined by a court of competent jurisdiction by final non-appealable judgment to have resulted from the gross negligence, bad faith, or willful misconduct of such Indemnitee; or (y) arising out of a dispute solely between or among indemnified persons not involving any act or omission of the Borrower (except that the Administrative Agent or Lead Arrangers in their respective roles as such shall be indemnified on the terms set forth herein). This Section 9.03(b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent such Lender’s pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such. For purposes hereof, a Lender’s “pro rata share” shall be determined based upon its share of the aggregate principal amount of outstanding Loans and unused Commitments at the time. The obligations of the Lenders under this paragraph (c) are subject to the last sentence of Section 2.02(a) (which shall apply mutatis mutandis to the Lenders’ obligations under this paragraph (c)).

(d) To the fullest extent permitted by applicable law, no party to this Agreement and no Indemnitee shall assert, and each hereby waives, any claim against any other party to this Agreement or any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, any Loan Document or any agreement or instrument contemplated thereby, the Transactions, any Loan or the use of the proceeds thereof; provided that nothing in this clause (d) shall relieve the Borrower of any obligation it may have to indemnify any Indemnitee against special, indirect, consequential or punitive damages awarded against such Indemnitee in favor of a third party in a final, non-appealable judgment by a court of competent jurisdiction. No Indemnitee referred to in paragraph (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby, except to the extent determined by a court of competent jurisdiction by final non-appealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee.

(e) All amounts due under this Section shall be payable not later than three Business Days after written demand therefor.

SECTION 9.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (other than an Ineligible Institution) all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld or delayed) of (A) the Borrower, except to the extent not required pursuant to clause (ii) below and (B) the Administrative Agent.

(ii) Assignments shall be subject to the following additional conditions: (A) except in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000, and the Borrower and the Administrative Agent consent (such consent not to be unreasonably withheld or delayed), provided that (I) no consents shall be required for an assignment to an existing Lender or an Affiliate of an existing Lender or an Approved Fund (other than a Defaulting Lender), (II) no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing and (III) such consent will be deemed to have been given if the Borrower has not responded within ten (10) Business Days after its receipt of any request for such consent, (B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, (C) the parties to each assignment shall execute and deliver to the Administrative Agent (x) an Assignment and Assumption or (y) to the extent applicable, an agreement incorporating an Assignment and Assumption by reference pursuant to a Platform as to which the Administrative Agent and the parties to the Assignment and Assumption are participants, together with a processing and recordation fee of $3,500, provided that assignments made pursuant to Section 2.16(b) or Section 9.02(c) shall not require the signature of the assigning Lender to become effective, and (D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire and any tax forms required by Section 2.14(e).

For purposes of paragraph (b) of this Section, the terms “Approved Fund” and “Ineligible Institution” have the following meanings:

“Approved Fund” means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Ineligible Institution” means (a) a natural person, (b) a Defaulting Lender or its Lender Parent, (c) a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural person or relative(s) thereof or (d) the Borrower or any of its Affiliates; provided that, such holding company, investment vehicle or trust shall not constitute an Ineligible Institution if it (x) has not been established for the primary purpose of acquiring any Loans or Commitments, (y) is managed by a professional advisor, who is not such natural person or a relative thereof, having significant experience in the business of making or purchasing commercial loans, and (z) has assets greater than $25,000,000 and a significant part of its activities consist of making or purchasing commercial loans and similar extensions of credit in the ordinary course of its business.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(v) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender’s rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.13, 2.14 and 9.03 and to any fees payable hereunder that have accrued for such Lender’s account but have not yet been paid). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c)(i) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the “Register”). The entries in the Register shall be conclusive absent manifest error, and the Borrower, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of (x) a duly completed Assignment and Assumption executed by an assigning Lender and an assignee or (y) to the extent applicable, an agreement incorporating an Assignment and Assumption by reference pursuant to a Platform as to which the Administrative Agent and the parties to the Assignment and Assumption are participants, the assignee’s completed Administrative Questionnaire and any tax forms required by Section 2.14(e) (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(vi) The words "execution," "signed," "signature" and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act or any other similar state laws based on the Uniform Electronic Transactions Act.

(c) (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") other than an Ineligible Institution, in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it), provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents, provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.12, 2.13 and 2.14 (subject to all requirements and limitations therein, including the requirements under Section 2.14(e)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided that such Participant agrees to be subject to Section 2.15(c) as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register complying with the requirements of Sections 163(f), 871(h) and 881(c)(2) of the Code on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under this Agreement (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in the Loans or other obligation under this Agreement) to any Person except to the extent such disclosure is necessary in connection with a Tax audit or other Tax proceeding to establish that any loans are in registered form for U.S. federal income tax purposes. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.12 or Section 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, except to the extent such entitlement to a greater payments results from a Change in Law occurring after the sale of such participation.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest, provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPV"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement, provided that (i) nothing herein shall constitute a commitment by any SPV to make any Loan and (ii) if an SPV elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPV hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each SPV exercising the option (an "Electing SPV") shall be entitled to the benefits of Sections 2.12, 2.13 and 2.14 (subject to all requirements and limitations therein, including the requirements under Section 2.14(e)) to the same extent as if it were a Granting Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section, providing that a SPV shall not be entitled to receive any greater payment under Section 2.12 or Section 2.14 than the Granting Lender would have been entitled to receive with respect to the Loan made by such SPV, except to the extent such entitlement to a greater payments results from a Change in Law occurring after the sale of such participation. Each Granting Lender shall, acting solely for this purpose as an agent of the Borrower, maintain a register complying with the requirements of Sections 163(f), 871(h) and 881(c)(2) of the Code on which it enters the name and address of each Electing SPV and the principal amounts (and stated interest) of each Electing SPV's interest in the Loans or other obligations under this Agreement (the "Electing SPV Register"); provided, that no Granting Lender shall have any obligation to disclose all or any portion of the Electing SPV Register (including the identity of any Electing SPV or any information relating to an Electing SPV's interest in the Loans or other obligation under this Agreement) to any Person except to the extent such disclosure is necessary in connection with a Tax audit or other Tax proceeding to establish that any loans are in registered form for U.S. federal income tax purposes. The entries in the Electing SPV Register shall be conclusive absent manifest error, and such Granting Lender shall treat each person whose name is recorded in the Electing SPV Register as the owner of such Loan for all purposes of this Agreement notwithstanding any notice to the contrary. Each party hereto hereby agrees that no SPV shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPV, such party will not institute against, or join any other person in instituting against, such SPV any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 9.04, any SPV may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Borrower and Administrative Agent) providing liquidity or credit support to or for the account of such

SPV to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPV.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to any Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 2.12, 2.13, 2.14 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness.

(a) This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent or the syndication of the Loans and Commitments constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) Delivery of an executed counterpart of a signature page of this Agreement by telecopy, emailed pdf. or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement. The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to any document to be signed in connection with this Agreement and the transactions contemplated hereby shall be deemed to include Electronic Signatures, deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency, other than funds held on behalf of customers) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured or are owed to a branch or office of such Lender different from the branch or office holding such deposit or obligated on such Indebtedness. The applicable Lender shall notify the Borrower and the Administrative Agent of such setoff and application, provided that any failure to give or any delay in giving such notice shall not affect the validity of any such setoff and application under this Section. The rights of each Lender and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender and its respective Affiliates may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the Supreme Court of the State of New York sitting in the borough of Manhattan and of the United States District Court of the Southern District of New York sitting in the borough of Manhattan, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in any Loan Document shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to any Loan Document against the Borrower or its respective properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in any Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to any Loan Document or the enforcement of rights thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Agreement relating to the Borrower and its obligations under the Loan Documents, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, the term "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrower, provided that, in the case of information received from the Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan or participation therein under applicable law (collectively, the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan or participation therein in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan or participation therein but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or participation therein or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. USA Patriot Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

SECTION 9.15. Material Non-Public Information.

(a) EACH LENDER ACKNOWLEDGES THAT INFORMATION AS DEFINED IN SECTION 9.12 FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE MATERIAL NON-PUBLIC INFORMATION CONCERNING THE BORROWER AND ITS RELATED PARTIES OR THEIR RESPECTIVE SECURITIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.

(b) ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE BORROWER OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE BORROWER AND ITS RELATED PARTIES OR ITS SECURITIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE BORROWER AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW.

SECTION 9.16. Collateral Matters.

Each of the Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon the payment in full of all Loan Document Obligations, termination or expiration of the Commitments in accordance with the provisions of this Agreement, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document to a Person other than the Borrower or (iii) if approved, authorized or ratified in writing in accordance with Section 9.02.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release its interest in particular types or items of property pursuant to this Section 9.16. In each case as specified in this Section 9.16, the Administrative Agent will, at the Borrower's expense, execute and deliver to the Borrower such documents as the Borrower may reasonably request to evidence the release of such item of Collateral from the assignment and security interest granted under the Collateral Documents in accordance with the terms of the Loan Documents and this Section 9.16.

SECTION 9.17. No Fiduciary Duty; Conflicts of Interest.

The Administrative Agent, each Lender and their Affiliates (collectively, solely for purposes of this paragraph, the "Lenders"), may have economic interests that conflict with those of the Borrower, its stockholders and/or their respective affiliates. The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between any Lender, on the one hand, and the Borrower, its stockholders or its affiliates, on the other. The Borrower acknowledges and agrees that (i) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lenders, on the one hand, and the Borrower, on the other, and (ii) in connection therewith and with the process leading thereto, (x) no Lender has assumed an advisory or fiduciary responsibility in favor of the Borrower, its stockholders or its affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender has advised, is currently advising or will advise the Borrower, its stockholders or its Affiliates on other matters) or any other obligation to the Borrower except the obligations expressly set forth in the Loan Documents and (y) each Lender is acting solely as principal and not as the agent or fiduciary of the Borrower, its management, stockholders, creditors or any other Person. The Borrower acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Borrower, in connection with such transaction or the process leading thereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

E*TRADE FINANCIAL CORP.,

By: /s/ Matthew J. Audette
Name: Matthew J. Audette
Title: Chief Financial Officer

[Signature Page to Credit Agreement]

JPMORGAN CHASE BANK, N .A., as a
Lender and Administrative Agent,

By: /s/ Kortney Brown
Name: Kortney Brown
Title: Vice President

[Signature Page to Credit Agreement]

MORGAN STANLEY SENIOR
FUNDING, INC., as Lender and
Syndication Agent,

By: /s/ Reagan C. Philipp

Name: Reagan C. Philipp

Title: Authorized Signatory

[Signature Page to Credit Agreement]

CREDIT SUISSE AG, CAYMAN
ISLANDS BRANCH as a Lender,

By: /s/ Doreen Barr

Name: Doreen Barr

Title: Authorized Signatory

By: /s/ Lingzi Huang

Name: Lingzi Huang

Title: Authorized Signatory

[Signature Page to Credit Agreement]

GOLDMAN SACHS BANK USA, as a
Lender

By: /s/ Charles D. Johnston

Name: Charles D. Johnston

Title: Authorized Signatory

[Signature Page to Credit Agreement]

Schedule 2.01

Commitments

Lender	Commitment	
JPMorgan Chase Bank, N.A.	$	75,000,000.00
Morgan Stanley Senior Funding, Inc.	$	75,000,000.00
Credit Suisse AG, Cayman Islands Branch	$	25,000,000.00
Goldman Sachs Bank USA	$	25,000,000.00
Total	**$**	**200,000,000.00**

Schedule 3.06

Disclosed Matters

Schedule 3.12

Subsidiaries

Schedule 3.15

Brokers and Dealers

Schedule 6.01

Existing Indebtedness

Schedule 6.02

Existing Liens

Schedule 6.04

Existing Investments

Schedule 6.06

Sale and Leaseback Transactions

Schedule 6.10

Existing Restrictions

EXHIBIT A

[FORM OF]
ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [the] [each] Assignor identified in item 1 below ([the] [each, an] "Assignor") and [the] [each] Assignee identified in item 2 below ([the] [each, an] "Assignee"). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] hereunder are several and not joint.][1] Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, restated, amended and restated, supplemented, extended and/or otherwise modified from time to time, the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of [the Assignor's] [the respective Assignors'] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the respective facilities identified below and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (i) and (ii) above being referred to herein collectively as [the] [an] "Assigned Interest"). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

1. Assignor[s]:	______________________________
2. Assignee[s]:	______________________________
	______________________________
[for each Assignee, indicate [Affiliate] [Approved Fund] of [identify Lender]]	
3. Borrower:	E*TRADE FINANCIAL CORPORATION., a Delaware corporation
4. Administrative Agent:	JPMorgan Chase Bank, N.A., as the Administrative Agent under the Credit Agreement.
5. Credit Agreement:	The Credit Agreement, dated as of November [ ], 2014, among E*TRADE Financial Corporation, a Delaware corporation, the lenders and other financial institutions from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent.
6. Assigned Interest[s]:	

[1] Include bracketed language if there are either multiple Assignors or multiple Assignees.

Assignor[s]	Assignee[s]	Facility Assigned	Aggregate Amount of Commitment / Loans for all Lenders	Amount of Commitment / Loans Assigned	Percentage Assigned of Commitment / Loans[2]	CUSIP Number
			$	$	%	
			$	$	%	
			$	$	%	

[7. Trade Date:][3]

Effective Date: _____________ ___, 20___ [TO BE INSERTED BY THE ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[2] Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

[3] To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR[S]
[NAME OF ASSIGNOR]

By: ______________________________
Title:

ASSIGNEE[S]
[NAME OF ASSIGNEE]

By: ______________________________
Title:

[Consented to and] Accepted:

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By: ______________________________________
Title:

[Consented to:]

[E*TRADE FINANCIAL CORPORATION]

By: ______________________________________

Title:

ANNEX 1

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor[s]. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee[s]. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an assignee under Section 9.04(b) of the Credit Agreement (subject to such consents, if any, as may be required under Section 9.04(b) of the Credit Agreement), (iii) from and after the Effective Date referred to in this Assignment and Assumption, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of [the] [the relevant] Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements delivered pursuant to Section 5.01 thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [such] Assigned Interest, (vi) it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [such] Assigned Interest, (vii) if it is a Foreign Lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by [the] [such] Assignee and (viii) it is not a “Defaulting Lender” as defined in the Credit Agreement; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of [the] [each] Assigned Interest (including payments of principal, interest, fees and other amounts) to [the] [the relevant] Assignor for amounts which have accrued to but excluding the

Effective Date and to [the] [the relevant] Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

EXHIBIT B

COLLATERAL AGREEMENT

dated as of

November 10, 2014,

between

E*TRADE FINANCIAL CORPORATION

and

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

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COLLATERAL AGREEMENT (this "*Agreement*") dated as of November 10, 2014, between E*TRADE FINANCIAL CORPORATION and JPMORGAN CHASE BANK, N.A., as Administrative Agent.

Reference is made to the Credit Agreement dated as of November 10, 2014 (as amended, supplemented or otherwise modified from time to time, the "*Credit Agreement*"), among E*TRADE Financial Corporation, a Delaware corporation (the "*Borrower*"), the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent. The Lenders have agreed to extend credit to the Borrower subject to the terms and conditions set forth in the Credit Agreement. The obligations of the Lenders to extend such credit are conditioned upon, among other things, the execution and delivery of this Agreement. Accordingly, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. *Credit Agreement*.

(a) Capitalized terms used in this Agreement and not otherwise defined herein have the meanings specified in the Credit Agreement. All terms defined in the New York UCC (as defined herein) and not defined in this Agreement have the meanings specified therein; the term "instrument" shall have the meaning specified in Article 9 of the New York UCC.

(b) The rules of construction specified in Section 1.03 of the Credit Agreement also apply to this Agreement.

SECTION 1.02. *Other Defined Terms*. As used in this Agreement, the following terms have the meanings specified below:

"*Collateral*" has the meaning assigned to such term in Section 2.01.

"*Credit Agreement*" has the meaning assigned to such term in the preliminary statement of this Agreement.

"*Excluded Property*" means (i) in the case of any Domestic Subsidiary that is a FSHCO, Equity Interests in excess of 65% of the voting Equity Interests of such FSHCO and (ii) any Indebtedness to the extent that a pledge by the Borrower of a security interest in such Indebtedness would reasonably be likely to result in adverse tax consequences to the Borrower as determined by the Borrower in good faith.

"*Federal Securities Laws*" has the meaning assigned to such term in Section 3.03.

"*New York UCC*" means the Uniform Commercial Code as in effect from time to time in the State of New York.

"*Perfection Certificate*" means a certificate substantially in the form of Exhibit D to the Credit Agreement or such other form approved by the Administrative Agent, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by the chief legal officer of the Borrower.

"*Pledged Debt Securities*" has the meaning assigned to such term in Section 2.01.

"*Pledged Securities*" means any promissory notes, stock certificates or other securities now or hereafter included in the Collateral, including all certificates, instruments or other documents representing or evidencing any Collateral.

"*Pledged Stock*" has the meaning assigned to such term in Section 2.01.

"*Secured Parties*" means (a) the Lenders, (b) the Administrative Agent, (c) each counterparty to any Swap Agreement with the Borrower the obligations under which constitute Obligations, (d) the beneficiaries of each indemnification obligation undertaken by the Borrower under any Loan Document and (e) the permitted successors and assigns of each of the foregoing.

ARTICLE II

Pledge of Securities

SECTION 2.01. *Pledge*. As security for the payment or performance, as the case may be, in full of the Obligations, the Borrower hereby assigns and pledges to the Administrative Agent, its successors and assigns, for the benefit of the Secured Parties, and hereby grants to the Administrative Agent, its successors and assigns, for the benefit of the Secured Parties, a security interest in, all of the Borrower's right, title and interest in, to and under (a) the shares of capital stock and other Equity Interests of any Domestic Subsidiary directly owned by it, including those listed on Schedule I and any other Equity Interests of a Domestic Subsidiary directly owned in the future by the Borrower and the certificates representing all such Equity Interests (collectively, the "*Pledged Stock*"); *provided* that the Pledged Stock shall not include (i) any Equity Interests of any Subsidiary that is not a Domestic Subsidiary or (ii) any Equity Interests if the pledge of such Equity Interests would be prohibited by any Requirement of Law or would require the consent (including non-objection) of any Governmental Authority (including any Bank Regulatory Authority) or Regulatory Supervising Organization; (b)(1) the Indebtedness owing by any Subsidiary to the Borrower and listed on Schedule I, (2) any future Indebtedness owing by any Subsidiary to the Borrower and (3) the promissory notes and any other instruments evidencing such Indebtedness (collectively, the "*Pledged Debt Securities*"); (c) all other property that may be delivered to and held by the Administrative Agent pursuant to the terms of this Section 2.01; (d) subject to Section 2.07, all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of, in exchange for or upon the conversion of, and all other Proceeds received in respect of, the securities referred to in clauses (a) and (b) above and the property referred to in clause (c) above; (e) subject to Section 2.07, all rights and privileges of the Borrower with respect to the securities and other property referred to in clauses (a), (b), (c) and (d) above; and (f) all Proceeds of any of the foregoing (the items referred to in clauses (a) through (f) above being collectively referred to as the "*Collateral*"); *provided* that notwithstanding anything to the contrary contained in the foregoing clauses (a) through (f), the security interest created by this Agreement shall not extend to, and the terms "Pledged Stock", "Pledged Debt Securities" and "Collateral" and other terms defining the components of the Collateral in the foregoing clauses (a) through (f) shall not include, any Excluded Property.

TO HAVE AND TO HOLD the Collateral, together with all right, title, interest, powers, privileges and preferences pertaining or incidental thereto, unto the Administrative Agent, its successors and assigns, for the ratable benefit of the Secured Parties, forever; *subject*, *however*, to the terms, covenants and conditions hereinafter set forth.

SECTION 2.02. *Delivery of the Collateral*.

(a) The Borrower agrees promptly (and in any event, (i) on the Closing Date, with respect to any Pledged Securities in existence on the date hereof and (ii) by the date required pursuant to Section 5.11 of the Credit Agreement (or such longer period as the Administrative Agent may agree in its sole discretion), with respect to any Pledged Securities acquired after the date hereof) to deliver or cause to be delivered to the Administrative Agent any and all Pledged Securities.

(b) The Borrower will cause any Indebtedness for borrowed money owed to the Borrower by any Domestic Subsidiary (except to the extent such Indebtedness constitutes Excluded Property) to be evidenced by a duly executed promissory note that is pledged and delivered to the Administrative Agent pursuant to the terms hereof.

(c) Upon delivery to the Administrative Agent, (i) any Pledged Securities shall be accompanied by stock powers duly executed in blank or other instruments of transfer satisfactory to the Administrative Agent and (ii) all other property comprising part of the Collateral shall be accompanied by proper instruments of assignment duly executed by the Borrower. Each delivery of Pledged Securities shall be accompanied by a schedule describing the securities, which schedule shall be attached hereto as Schedule I and made a part hereof; provided that failure to attach any such schedule hereto shall not affect the validity of such pledge of such Pledged Securities. Each schedule so delivered shall supplement any prior schedules so delivered.

SECTION 2.03. *Representations, Warranties and Covenants*. The Borrower represents and warrants to the Administrative Agent and the Secured Parties, that:

(a) Schedule I correctly sets forth the percentage of the issued and outstanding shares of each class of the Equity Interests of the issuer thereof represented by such Pledged Stock and includes all Equity Interests, debt securities and promissory notes required to be pledged hereunder in order to satisfy the Collateral Requirement and all certificates or instruments representing such Collateral;

(b) the Pledged Stock and Pledged Debt Securities have been duly and validly authorized and issued by the issuers thereof and (i) in the case of Pledged Stock, are fully paid and nonassessable and (ii) in the case of Pledged Debt Securities, are legal, valid and binding obligations of the issuers thereof;

(c) except for the security interests granted hereunder, the Borrower (i) is and, subject to any transfers made in compliance with the Credit Agreement, will continue to be the direct owner, beneficially and of record, of the Pledged Securities set forth on Schedule I, (ii) holds the same free and clear of all Liens, other than Liens created by this Agreement, Permitted Encumbrances and transfers made in compliance with the Credit Agreement, (iii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Collateral, other than Liens created by this Agreement or any other Lien permitted by the Credit Agreement, and (iv) will use commercially reasonable efforts to defend its title or interest thereto or therein against any and all Liens (other than Liens created by this Agreement or any other Lien permitted by the Credit Agreement) however arising, of all Persons whomsoever;

(d) except for restrictions and limitations imposed by the Loan Documents, Requirements of Law or securities laws generally and except that transfer of a direct or indirect interest in shares of, or a controlling interest in any Regulated Subsidiary, including pursuant to a foreclosure under this Agreement, may require prior notice to and/or approval by one or more Governmental Authorities, Bank Regulatory Authorities and Regulatory Supervising Organizations (the "Regulatory Transfer Restriction"), the Collateral is and will continue to be freely transferable and assignable, and none of the Collateral is or will be subject to any option, right of first refusal, shareholders agreement, charter or by-law provisions or contractual restriction of any nature that might prohibit, impair, delay or otherwise affect the pledge of such Collateral hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Administrative Agent of rights and remedies hereunder;

(e) the Borrower has the power and authority to pledge the Collateral pledged by it hereunder in the manner hereby done or contemplated;

(f) no consent or approval of any Governmental Authority, any securities exchange or any other Person was or is necessary to the validity of the pledge effected hereby (other than such as have been obtained and are in full force and effect);

(g) by virtue of the execution and delivery by the Borrower of this Agreement, (a) when any Pledged Securities are delivered to the Administrative Agent in accordance with this Agreement or (b) with respect to Collateral that may be perfected by filing, when Uniform Commercial Code financing statements in the Borrower's jurisdiction of organization are filed, the Administrative Agent will obtain a legal, valid and perfected lien upon and security interest in such Pledged Securities as security for the payment and performance of the Obligations;

(h) the pledge effected hereby is effective to vest in the Administrative Agent, for the benefit of the Secured Parties, the rights of the Administrative Agent in the Collateral as set forth herein; and

(i) all certificates, agreements or instruments representing or evidencing the Collateral in existence on the date hereof have been delivered to the Administrative Agent in suitable form for transfer by delivery or accompanied by duly executed stock powers or other instruments of transfer in blank.

SECTION 2.04. *Additional Covenants*.

(a) At its option, the Administrative Agent may discharge past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Collateral and not permitted pursuant to Section 6.02 of the Credit Agreement, and the Borrower agrees to reimburse the Administrative Agent on demand for any payment made or any expense incurred by the Administrative Agent pursuant to the foregoing authorization; *provided* that nothing in this paragraph shall be interpreted as excusing the Borrower from the performance of, or imposing any obligation on the Administrative Agent or any Secured Party to cure or perform, any covenants or other promises of the Borrower with respect to taxes, assessments, charges, fees, Liens, security interests or other encumbrances and maintenance as set forth herein or in the other Loan Documents.

(b) The Borrower will not, except in compliance with Section 5.03(a) of the Credit Agreement, change its legal name or jurisdiction of organization, organizational ID number or the location of its chief executive office from that referred to in the Perfection Certificate; provided that the

Borrower will give the Administrative Agent prompt written notice of any such change (and in any event the Borrower shall give the Administrative Agent such written notice within 60 days of such change).

SECTION 2.05. *Certification of Limited Liability Company and Limited Partnership Interests*. Borrower hereby agrees that if any Collateral constituting Investment Property of any issuer that is controlled by the Borrower and pledged hereunder (other than, at any time prior to December 31, 2014, with respect to any Collateral constituting ownership interests in Converging Arrows, Inc.) is at any time not evidenced by a certificate, then Borrower shall, to the extent permitted by applicable law, cause the applicable issuers thereof to promptly execute and deliver to the Administrative Agent an acknowledgement of the pledge of such Collateral in a form that is reasonably satisfactory to the Administrative Agent.

SECTION 2.06. *Registration in Nominee Name; Denominations*. The Administrative Agent, on behalf of the Secured Parties, shall have the right (in its sole and absolute discretion after the occurrence and during the continuance of an Event of Default) to hold the Pledged Securities in its own name as pledgee or the name of its nominee (as pledgee or as sub-agent) or to continue to hold the Pledged Securities in the name of the Borrower, endorsed or assigned in blank or in favor of the Administrative Agent, in each case subject to the Regulatory Transfer Restriction in the case of Pledged Securities issued by a Regulated Subsidiary. The Borrower will promptly give to the Administrative Agent copies of any notices or other communications received by it with respect to Pledged Securities registered in the name of the Borrower. Subject to the foregoing, the Administrative Agent shall at all times after the occurrence and during the continuance of an Event of Default have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Agreement.

SECTION 2.07. *Voting Rights; Dividends and Interest*.

(a) Unless and until an Event of Default shall have occurred and be continuing:

(i) The Borrower shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Securities or any part thereof for any purpose consistent with the terms of this Agreement, the Credit Agreement and the other Loan Documents.

(ii) The Administrative Agent shall execute and deliver to the Borrower, or cause to be executed and delivered to the Borrower, all such proxies, powers of attorney and other instruments as the Borrower may reasonably request for the purpose of enabling the Borrower to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to subparagraph (i) above.

(iii) The Borrower shall be entitled to receive and retain any and all dividends, interest, principal and other distributions paid on or distributed in respect of the Pledged Securities to the extent and only to the extent that such dividends, interest, principal and other distributions are not prohibited by, and otherwise paid or distributed in accordance with, the terms and conditions of the Credit Agreement, the other Loan Documents and applicable laws; *provided* that any noncash dividends, interest, principal or other distributions that would constitute Pledged Stock or Pledged Debt Securities, whether resulting from a subdivision, combination or reclassification of the outstanding Equity Interests of the issuer of any Pledged Securities or received in exchange for Pledged Securities or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, or as a result of any liquidation or dissolution, shall be and become part of the Collateral and, if received by the Borrower, shall not be commingled by the Borrower with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Administrative Agent and shall be forthwith delivered to the Administrative Agent in the same form as so received (with any necessary endorsement); provided that such delivery to the Administrative Agent shall be made within (x) ten (10) Business Days (with respect to any Significant Subsidiary) and (y) within sixty (60) days (with respect to any Subsidiary that is not a Significant Subsidiary) of receipt (in each case, as such date may be extended by the Administrative Agent in its sole discretion).

(b) Upon the occurrence and during the continuance of an Event of Default, all rights of the Borrower to dividends, interest, principal or other distributions that the Borrower is authorized to receive pursuant to paragraph (a)(iii) of this Section 2.07 shall cease, and all such rights shall, to the extent not inconsistent with the Regulatory Transfer Restrictions, thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, interest, principal or other distributions. All dividends, interest, principal or other distributions received by the Borrower contrary to the provisions of this Section 2.07 shall be held in trust for the benefit of the Administrative Agent, shall be segregated from other property or funds of the Borrower and shall be forthwith delivered to the Administrative Agent in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Administrative Agent pursuant to the provisions of this paragraph (b) shall be retained by the Administrative Agent in an account to be established by the Administrative Agent upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 3.02. After all Events of Default have been cured or waived and the Borrower has delivered to the Administrative Agent a certificate to that effect, the Administrative Agent shall promptly repay to the Borrower (without interest) all dividends, interest, principal or other distributions that the Borrower would otherwise be permitted to retain pursuant to the terms of paragraph (a)(iii) of this Section 2.07 and that remain in such account.

(c) Upon the occurrence and during the continuance of an Event of Default, to the extent not inconsistent with the Regulatory Transfer Restrictions, all rights of the Borrower to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to paragraph (a)(i) of this Section 2.07, and the obligations of the Administrative Agent under paragraph (a)(ii) of this Section 2.07, shall cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers; *provided* that, unless otherwise directed by the Required Lenders, the Administrative Agent shall have the right from time to time following and during the continuance of an Event of Default to permit the Borrower to exercise such rights. After all Events of Default have been cured or waived and the Borrower has delivered to the Administrative Agent a certificate to that effect, the Borrower will have the right to exercise the voting and consent rights that the Borrower would otherwise be entitled to exercise pursuant to the terms of paragraph (a)(i) above.

(d) Any notice given by the Administrative Agent to the Borrower suspending its rights under paragraph (a) of this Section 2.07 (i) may be given by telephone if promptly confirmed in writing and (ii) may suspend the rights of the Borrower under paragraph (a)(i) or paragraph (a)(iii) in part without suspending all such rights (as specified by the Administrative Agent in its sole and absolute discretion) and without waiving or otherwise affecting the Administrative Agent's rights to give additional notices from time to time suspending other rights so long as an Event of Default has occurred and is continuing.

SECTION 2.08. *Filings*. Borrower hereby irrevocably authorizes the Administrative Agent at any time and from time to time to file in any relevant jurisdiction any financing statements and amendments thereto that contain the information required by Article 9 of the New York UCC (or other similar laws) of each applicable jurisdiction for the filing of any financing statement or amendment relating to the Collateral, including (i) whether Borrower is an organization, the type of organization and any organizational identification number issued to Borrower, and (ii) any financing or continuation statements or other documents without the signature of Borrower where permitted by law; *provided* that the collateral description shall be limited to the description in Section 2.01 of this Agreement. Borrower agrees to provide all information described in the immediately preceding sentence to the Administrative Agent promptly upon request by the Administrative Agent.*Supplements; Further Assurances*. The Borrower will execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that may be required under any applicable law, or that the Administrative Agent or the Required Lenders may reasonably request, to cause the Collateral Requirement to be and remain satisfied, all at the expense of the Borrower. The Borrower also agrees to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by, the Credit Agreement, this Agreement or the other Security Documents.

ARTICLE III

Remedies

SECTION 3.01. *Remedies Upon Default*. Upon the occurrence and during the continuance of an Event of Default, the Borrower agrees to deliver any item of Collateral to the Administrative Agent that the Borrower has not delivered to the Administrative Agent prior to the date of such occurrence, and it is agreed that the Administrative Agent shall have the right, subject to the mandatory requirements of applicable law, including the Regulatory Transfer Restriction, to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law, exercise any and all rights and remedies of the Borrower under or in connection with the Collateral and to sell or otherwise dispose of all or any part of the Collateral at a public or private sale or at any broker’s board or on any securities exchange, for cash, upon credit or for future delivery as the Administrative Agent shall deem appropriate. The Administrative Agent shall be authorized at any such sale of securities (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to Persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Administrative Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any sale of Collateral shall hold the property sold absolutely, free from any claim or right on the part of the Borrower, and the Borrower hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which the Borrower now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Administrative Agent shall give the Borrower 10 days’ written notice (which the Borrower agrees is reasonable notice within the meaning of Section 9-611 of the New York UCC or its equivalent in other jurisdictions) of the Administrative Agent’s intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker’s board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Administrative Agent may fix and state in the notice (if any) of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate lots, as the Administrative Agent may (in its sole and absolute discretion) determine. The Administrative Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Administrative Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Administrative Agent until the sale price is paid by the purchaser or purchasers thereof, but the Administrative Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public (or, to the extent permitted by law, private) sale made pursuant to this Agreement, any Secured Party may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of the Borrower (all said rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to such Secured Party from the Borrower as a credit against the purchase price, and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to the Borrower therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Administrative Agent shall be free to carry out such sale pursuant to such agreement and the Borrower shall not be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Administrative Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Administrative Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section 3.01 shall be deemed to conform to the commercially reasonable standards as provided in Section 9-610(b) of the New York UCC or its equivalent in other jurisdictions.

The provisions of this Section 3.01 are subject in every respect to the Regulatory Transfer Restriction.

SECTION 3.02. *Application of Proceeds*. The Administrative Agent shall apply the proceeds of any collection or sale of Collateral as follows:

FIRST, to the payment of all costs and expenses incurred by the Administrative Agent in connection with such collection or sale or otherwise in connection with this Agreement, any other Loan Document or any of the Obligations, including all court costs and the fees and expenses of its agents and legal counsel, the repayment of all advances made by the Administrative Agent hereunder or under any other Loan Document on behalf of the Borrower and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Borrower, its successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Administrative Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of Collateral by the Administrative Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Administrative Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Administrative Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 3.03. *Securities Act*. In view of the position of the Borrower in relation to the Collateral, or because of other current or future circumstances, a question may arise under the Securities Act of 1933, as now or hereafter in effect, or any similar statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being called the "*Federal Securities Laws*") with respect to any disposition of the Collateral permitted hereunder. The Borrower understands that compliance with the Federal Securities Laws might very strictly limit the course of conduct of the Administrative Agent if the Administrative Agent were to attempt to dispose of all or any part of the Collateral, and might also limit the extent to which or the manner in which any subsequent transferee of any Collateral could dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Administrative Agent in any attempt to dispose of all or part of the Collateral under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. The Borrower recognizes that in light of such restrictions and limitations the Administrative Agent may, with respect to any sale of the Collateral, limit the purchasers to those who will agree, among other things, to acquire such Collateral for their own account, for investment, and not with a view to the distribution or resale thereof. The Borrower acknowledges and agrees that in light of such restrictions and limitations, the Administrative Agent, in its sole and absolute discretion but subject to Section 4.12(a) may proceed to make such a sale whether or not a registration statement for the purpose of registering such Collateral or part thereof shall have been filed under the Federal Securities Laws and (b) may approach and negotiate with a single potential purchaser to effect such sale. The Borrower acknowledges and agrees that any such sale might result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions. In the event of any such sale, the Administrative Agent shall incur no responsibility or liability for selling all or any part of the Collateral at a price that the Administrative Agent, in its sole and absolute discretion, may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might have been realized if the sale were deferred until after registration as aforesaid or if more than a single purchaser were approached. The provisions of this Section 3.03 will apply notwithstanding the existence of a public or private market upon which the quotations or sales prices may exceed substantially the price at which the Administrative Agent sells.

ARTICLE IV

Miscellaneous

SECTION 4.01. *Notices*. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 9.01 of the Credit Agreement.

SECTION 4.02. *Waivers; Amendment.*

(a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section 4.02, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Borrower with respect to which such waiver, amendment or modification is to apply, subject to any consent required in accordance with Section 9.02 of the Credit Agreement.

SECTION 4.03. *Successors and Assigns*. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Administrative Agent that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 4.04. *Counterparts; Effectiveness; Several Agreement*. This Agreement may be executed in counterparts, each of which shall constitute an original but all of which when taken together shall constitute single contract, and shall become effective as provided in Section 4.04. Delivery of an executed signature page to this Agreement by facsimile or electronic transmission shall be as effective as delivery of a manually signed counterpart of this Agreement. This Agreement shall become effective as to the Borrower when a counterpart hereof executed on behalf the Borrower shall have been delivered to the Administrative Agent and a counterpart hereof shall have been executed on behalf of the Administrative Agent, and thereafter shall be binding upon the Borrower and the Administrative Agent and their respective permitted successors and assigns, and shall inure to the benefit of the Borrower, the Administrative Agent and the other Secured Parties and their respective successors and assigns, except that the Borrower shall not have the right to assign or transfer its rights or obligations hereunder or any interest herein or in the Collateral (and any such assignment or transfer shall be void) except as expressly contemplated by this Agreement or the Credit Agreement.

SECTION 4.05. *Severability*. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 4.06. *Governing Law; Jurisdiction; Consent to Service of Process*. This Agreement shall be construed in accordance with and governed by the law of the State of New York. The Borrower irrevocably and unconditionally waives any objection to the laying of venue of any suit, action or proceeding arising out of or relating to any Loan Document in the Supreme Court of the State of New York in the borough of Manhattan, and each party hereto irrevocably waives the defense of an inconvenient forum to the maintenance of such action or proceeding in such court. Each party irrevocably consents to service of process in the manner provided for notices in Section 9.01 of the Credit Agreement.

SECTION 4.07. *Headings*. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 4.08. *Security Interest Absolute*. All rights of the Administrative Agent hereunder, the grant of a security interest in the Collateral and all obligations of the Borrower hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, or (c) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Obligations or this Agreement other than payment of the Obligations.

SECTION 4.09. *Termination or Release*.

(a) This Agreement and all security interests granted hereby shall terminate when all the Loan Document Obligations (other than contingent expense reimbursement and indemnification Obligations for which no claim has been made) have been indefeasibly paid in full and the Lenders have no further commitment to lend under the Credit Agreement.

(b) Upon the effectiveness of any written consent to the release of the security interest granted hereby in any Collateral pursuant to (i) Section 9.02 of the Credit Agreement or (ii) otherwise in accordance with Section 9.16 of the Credit Agreement, the security interest in such Collateral shall be automatically released.

(c) In connection with any termination or release pursuant to Section 4.09(a) or (b), the Administrative Agent shall execute and deliver to the Borrower, at the Borrower's expense, all documents that the Borrower shall reasonably request to evidence such termination or release; provided that, with respect to any termination or release pursuant to Section 4.09(b)(ii), at the Administrative Agent's request, the Borrower shall provide a certification in form and substance reasonably acceptable to the Administrative Agent stating that such termination or release is in compliance with the Credit Agreement and the other Loan Documents and as to such other items as the Administrative Agent may reasonably request. Any execution and delivery of documents pursuant to this Section 4.09 shall be without recourse to or warranty by the Administrative Agent.

SECTION 4.10. *Administrative Agent Appointed Attorney-in-Fact*. The Borrower hereby appoints the Administrative Agent (and all officers, employees or agents designated by the Administrative Agent) the attorney-in-fact of the Borrower for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument that the Administrative Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Administrative Agent shall have the right, upon the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Administrative Agent's name or in the name of the Borrower (a) to receive, endorse, assign and/or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (d) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; and (e) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Administrative Agent were the absolute owner of the Collateral for all purposes.; *provided* that nothing herein contained shall be construed as requiring or obligating the Administrative Agent to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Administrative Agent, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby. The Administrative Agent and the other Secured Parties shall be accountable only for amounts actually received as a result of the exercise of the powers granted to them herein, and neither they nor their officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act hereunder, except for their own gross negligence or wilful misconduct. *Administrative Agent's Fees and Expenses; Indemnifications*.

(a) The parties hereto agree that the Administrative Agent shall be entitled to reimbursement of its reasonable out-of-pocket expenses incurred hereunder and indemnity for its actions in connection herewith, in each case, to the extent the Borrower would be required to do so pursuant to Section 9.03 of the Credit Agreement.

(b) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 4.11 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent or any other Secured Party.

SECTION 4.12 *Affected Pledge Equity*. Notwithstanding anything herein to the contrary, the Administrative Agent, on behalf of the Secured Parties, acknowledges that, to the extent required by any Requirement of Law or one or more Governmental Authorities, any Bank Regulatory Authority, and Regulatory Supervising Organization or with respect to any Insurance Regulatory Subsidiary, any supervisory agency, state insurance department other state, Federal or foreign insurance regulatory body or the National Association of Insurance Commissioners (each, a "*Regulatory Authority*"), the ownership of any Pledged Stock of any Regulated Subsidiary (the "*Affected Pledged Equity*") and voting rights in such Affected Pledged Equity, shall remain with the Borrower even if an Event of Default has occurred and is continuing, unless (i) the applicable Regulatory Authority shall have given its prior consent to the change in ownership of such Affected Pledged Equity by transfer to an acquirer whether by purchase at a public or private sale of such Affected Pledged Equity or by merger or other transfer effecting a change in ownership in such Affected Pledged Equity, or to the exercise of such rights to effect a change in ownership of such Affected Pledged Equity by the Administrative Agent, a receiver, trustee, conservator or other agent duly appointed in accordance with applicable law or (ii) the transferee of such Affected Pledged Equity is approved as the owner of such Affected Pledged Equity pursuant to applicable rules and regulations of the applicable Regulatory Authority. To enforce the provisions of this subsection, the Administrative Agent is empowered to request the appointment of a receiver from any court of competent jurisdiction. To the extent permitted by applicable Requirements of Law, such receiver shall be instructed to seek from the applicable Regulatory Authorities a transfer of any such Affected Pledged Equity for the purpose of seeking a purchaser or other transferee to whom it will ultimately be transferred. Upon the occurrence and during the continuance of an Event of Default, at the Administrative Agent's request, the Borrower shall use its commercially reasonable efforts to cooperate in obtaining approval of any applicable Regulatory Authorities, if required, for any action or transactions contemplated hereby, including, without limitation, the preparation, execution and filing with such Regulatory Authority of the assignor's or transferor's portion of any application for consent or approval to the transfer of the Affected Pledged Equity necessary or appropriate under the applicable Regulatory Authority's rules and regulations for approval of the transfer or assignment of any portion of the Affected Pledged Equity.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

E*TRADE FINANCIAL CORPORATION

By: ______________________________

Name:

Title:

JPMORGAN CHASE BANK, N.A., AS
ADMINISTRATIVE AGENT

By: ______________________________

Name:

Title:

Exhibit C

FORM OF PERFECTION CERTIFICATE

November [ ], 2014

Reference is made to the Credit Agreement dated as of November [ ], 2014 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), between E*TRADE Financial Corporation, as Borrower, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Morgan Stanley Senior Funding, Inc., as Syndication Agent. Capitalized terms used but not defined herein have the meanings assigned in the Credit Agreement or the Collateral Agreement referred to therein, as applicable.

The undersigned, a Financial Officer and a legal officer of the Borrower, respectively, hereby certify to the Collateral Agent and each other Secured Party as follows:

1. COLLATERAL INFORMATION.

A. Names.

(i) The exact legal name of the Borrower, as such name appears in its respective certificate of formation, is as follows:

Name	State of Incorporation
E*TRADE Financial Corporation	Delaware

(ii) Set forth below is each other legal name the Borrower has had in the past five years, together with the date of the relevant change:

None.

(iii) Except as set forth in Schedule A hereto, the Borrower has not changed its identity or corporate structure in any way within the past five years. Changes in identity or corporate structure would include mergers and consolidations, as well as any change in the form, nature or jurisdiction of organization.

(iv) The following is a list of all other names (including trade names or similar appellations) used by the Borrower or any of its divisions or other business units in connection with the conduct of its business or the ownership of its properties at any time during the past five years:

None.

(v) Set forth below is the Organizational Identification Number, if any, issued by the jurisdiction of formation of the Borrower:

Name	Organizational #
E*TRADE Financial Corporation	2628534

B. Current Locations.

(i) The chief executive office of the Borrower is located at the address set forth below:

1271 Avenue of the Americas, 14th Floor, New York, NY 10020

(ii) Set forth below is the location where the Borrower maintains any books or records relating to the Collateral:

671 N. Glebe Road, Arlington, Virginia 22203
501 Plaza II, 4^{th} Floor, Harborside Financial Center, Jersey City, NJ 07311

(iii) Set forth below are the names and addresses of all Persons that have possession of any of the Collateral of the Borrower:

Name	Address
None	N/A

C. Stock Ownership and other Equity Interests.

Attached hereto as Schedule B is a true and correct list of all the issued and outstanding stock, partnership interests, limited liability company membership interests or other equity interest of any Subsidiary that are required to be pledged under the Collateral Agreement and the record and beneficial owners of such stock, partnership interests, membership interests or other equity interests.

D. Debt Instruments.

Attached hereto as Schedule C is a true and correct list of all promissory notes and other evidence of indebtedness held by the Borrower that are required to be pledged under the Collateral Agreement.

IN WITNESS WHEREOF, the undersigned have duly executed this certificate as of the date first written above.

E*TRADE FINANCIAL CORPORATION

by ________________________________

Name: Matthew Audette

Title: Chief Financial Officer

by ________________________________

Name: Karl Roessner

Title: General Counsel

E*TRADE FINANCIAL CORPORATION
RESTRICTED STOCK UNITS AGREEMENT

E*TRADE Financial Corporation has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the "***Grant Notice***") to which this Restricted Stock Units Agreement (the "***Agreement***") is attached an Award consisting of Restricted Stock Units subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to the E*TRADE Financial Corporation 2005 Equity Incentive Plan (as amended from time to time, the "***Plan***"), the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan (the "***Plan Prospectus***"), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined in this Agreement or in **Exhibit A** hereto, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

2.1 **Committee Authority.** All questions of interpretation concerning the Grant Notice and this Agreement shall be determined by the "Committee" (as defined below). All determinations by the Committee shall be final and binding upon all persons having an interest in this Agreement or the Award, including the Participant. Any Officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

2.2 **Definition of Committee.** For purposes of this Agreement, the "***Committee***" means the Compensation Committee, the Governance Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the

Board; provided that if no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

3. **THE AWARD.**

3.1 **Grant of Restricted Stock Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Number of Restricted Stock Units set forth in the Grant Notice, subject to adjustment as provided in Section 3.3 and Section 7. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units.

3.3 **Dividend Equivalent Units.** On the date that the Company pays a cash dividend to holders of Stock generally, the Participant shall be credited with a number of additional whole Dividend Equivalent Units determined by dividing (a) the product of (i) the dollar amount of the cash dividend paid per share of Stock on such date and (ii) the total number of Restricted Stock Units and Dividend Equivalent Units credited to the Participant pursuant to the Award as of the date on which such dividend was declared, by (b) the Fair Market Value per share of Stock on such date. Any resulting fractional Dividend Equivalent Unit shall be rounded to the nearest whole number. Such additional Dividend Equivalent Units shall be subject to the same terms and conditions and shall be vested or forfeited in the same manner and at the same time as the Restricted Stock Units originally subject to the Award with respect to which they have been credited.

4. **VESTING OF UNITS.**

4.1 **Normal Vesting.** Except as provided in this Section 4, the Units shall vest and become Vested Units as provided in the Grant Notice, subject to the Participant’s continued Service through the applicable vesting date.

4.2 **Death and Disability.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested shall vest and become Vested Units upon Participant’s death or termination of Service as a result of Disability, whether occurring prior to, on or following a Change in Control.

4.3 **Involuntary Termination or Retirement Outside a Change in Control Period.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested upon the Participant's Involuntary Termination or Retirement, in each case occurring outside a Change in Control Period (the "***Post-Termination Units***"), shall not terminate, but will remain eligible to become vested on the applicable dates set forth in the Grant Notice as if the Participant's Service had not terminated; provided that (i) the Participant signs the Release and any revocation period with respect thereto expires without revocation within 60 days following the date of termination, (ii) the settlement of the tranche of Units that would first vest following the termination date if the Participant had remained in Service shall occur on the latest of (1) the applicable vesting date set forth in the Grant Notice, (2) the date the Release becomes effective and (3) the 60^{th} day following the date of termination, if the 60 day period referenced in this Section 4.3 in respect of the Release begins in one calendar year and ends in another and (iii) all of the Post-Termination Awards will be canceled immediately if any of the following events occur at any time before the applicable vesting date set forth in the Grant Notice:

(a) The Participant acts in any manner that the Committee determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;

(b) During the 12-month period following termination of Service, the Participant fails to comply with any restrictive covenants to which the Participant is subject;

(c) The Participant encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company;

(d) The Participant, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;

(e) The Participant disparages the Company or its officers, directors, employees, products or services;

(f) The Participant misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between the Participant and the Company (or any of its affiliates), or breaches any release of claims executed by the Participant in connection with the Participant's termination of Service;

(g) The Participant fails or refuses to cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which the Participant may have pertinent information; or

(h) The Company determines that the Participant's Service could have been terminated for Cause (regardless of any "cure" periods) or that the Participant's actions or omissions during Service caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

Notwithstanding anything set forth in this Section 4.3 to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "***409A Change in Control***").

4.4 **Certain Events Occurring During a Change in Control Period.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested upon the commencement of a Change in Control Period shall not terminate, but will remain eligible to become vested on the applicable dates set forth in the Grant Notice; provided that if (i) either (1) the Participant's Service terminates as a result of an Involuntary Termination during a Change in Control Period or (2) the Participant is or becomes Retirement-Eligible during a Change in Control Period and (ii) the Participant signs the Release and any revocation period with respect thereto expires without revocation within 60 days following the date of the applicable event, then any Units that are outstanding and unvested as of the date of such applicable event shall become Vested Units and shall be settled in full on the date the Release becomes effective.

Notwithstanding the foregoing, if (a) the applicable event referenced in this Section 4.4 occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, the Units will be settled on the same Vesting Dates on which such settlement would have occurred if the Participant remained in Service and (b) if the 60 day period referenced in this Section 4.4 in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

4.5 **Termination for Cause.** If the Participant's Service is terminated for Cause, then all of the then-outstanding and unvested Units shall immediately be forfeited and cancelled without the payment of any consideration to the Participant.

4.6 **Termination for Any Other Reason.** If the Participant's Service terminates while any of the Units are unvested for any reason not set forth in this Section 4, then all of the then-outstanding and unvested Units shall be immediately cancelled and forfeited without the payment of any consideration to the Participant unless the Committee determines to provide for the vesting and settlement of all or some of such Units in its sole discretion.

5. **<u>SETTLEMENT OF THE AWARD</u>.**

5.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 5.3 below, the Company shall issue to the Participant, on the Settlement Date with respect to each Unit to be settled on such date, one (1) share of Stock; provided however, that if such Settlement Date is a date on which a sale by the Participant of the Stock to be issued in settlement of such Unit would violate the Insider Trading Policy of the Company, then the Settlement Date with respect to such Unit shall be the earlier of (a) the next day on which such sale would not violate the Insider Trading Policy or (b) the last date on which such issuance may be made without incurring accelerated taxation or tax penalties under Section 409A. For purposes of this Section, "***Insider Trading Policy***" means the written policy of the Company pertaining to the sale, transfer or other disposition of the Company's equity securities by members of the Board, Officers or other employees who may possess material, non-public information regarding the Company, as in effect at the time of a disposition of any shares of Stock. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 5.3.

5.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares settled under the Award shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

5.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

5.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

6. <u>TAX WITHHOLDING AND OTHER TAX ISSUES</u>.

6.1 **In General.** Regardless of any action the Company and/or the Participating Company employing the Participant (the "***Employer***") take with respect to any or all income tax (including the U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related withholding (the "***Tax-Related Items***"), the Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by the Participant is and remains the Participant's responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant or vesting of the Restricted Stock Units, the subsequent sale of any shares of Stock acquired upon vesting and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate Participant's liability for Tax-Related Items.

6.2 **Withholding Methods.** Prior to the relevant taxable event, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or the Employer. In this regard, if permissible under local law, the Participant authorizes the Company and/or the Employer, at its discretion, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Participant by one or a combination of the following: (a) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; (b) withholding from the proceeds of the sale of shares of Stock acquired upon vesting of the Award; (c) arranging for the sale of shares of Stock otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization); or (d) withholding otherwise deliverable shares of Stock, provided that the Company only withholds the amount of shares necessary to satisfy the minimum withholding amount or such other amount as may be necessary to avoid adverse accounting treatment. If the Company satisfies the obligation for Tax-Related Items by withholding a number of shares as described herein, the Participant shall be deemed, for tax purposes only, to have been issued the full number of shares of Stock subject to the Vested Units, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. Participant understands that in the event he or she becomes Retirement-Eligible, the Company may be required to make certain payroll tax withholdings at such time (prior to the Settlement Date).

Finally, the Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Participant acknowledges and agrees that the Company may refuse to deliver shares of Stock if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items as described in this Section.

6.3 Section 409A.

(a) The Award is intended to qualify for the short-term deferral exception to Section 409A of the Code ("***Section 409A***") described in the regulations promulgated under Section 409A to the maximum extent possible. To the extent Section 409A is applicable to this Award (and in any event if Participant is Retirement-Eligible), this Award is intended to comply with Section 409A and to be interpreted and construed consistent with such intent.

(b) Without limiting the generality of the foregoing, if the Participant is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of Participant's termination of service at a time when this Award pursuant its terms would be vested (including without limitation as a result of Participant's Retirement), then to the extent required in order to avoid accelerated taxation or tax penalties under Section 409A, shares of Stock that would otherwise be issued under this Award (or any other amount due hereunder) at such termination of service shall instead be issued on the first business day after the first to occur of (i) the date that is six months following the Participant's termination of employment and (ii) the date of the Participant's death.

(c) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of the Participant's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code.

7. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

8. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 3.3 and Section 7. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

9. **ACKNOWLEDGEMENT OF NATURE OF PLAN AND AWARD.** In accepting the Award, the Participant acknowledges that:

9.1 the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

9.2 the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of Units, or benefits in lieu of Units, even if Units have been granted repeatedly in the past;

9.3 all decisions with respect to future Awards, if any, will be at the sole discretion of the Company;

9.4 the Participant is voluntarily participating in the Plan;

9.5 the Award is an extraordinary item that does not constitute compensation of any kind for Service of any kind rendered to the Company or the Employer, and which is outside the scope of the Participant's employment or service contract, if any;

9.6 the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, any nonqualified pension or retirement benefits, welfare benefits or similar payments and, except to the extent provided under the written terms of the applicable plan, any qualified pension benefits, and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

9.7 in the event that the Participant is not an Employee of the Company or any Participating Company, the Award and the Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Participating Company;

9.8 the future value of the underlying shares of Stock is unknown and cannot be predicted with certainty;

9.9 in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the Award or shares of Stock acquired upon vesting of the Award resulting from termination of the Participant's Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and the Participant irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

9.10 in the event of termination of the Participant's Service (whether or not in breach of local labor laws), the Participant's right to receive an Award and vest in an Award under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively rendering Service and will not be extended by any notice period mandated under local law (*e.g.*, active Service will not include a period of "garden leave" or similar period pursuant to local law); the Committee shall have the exclusive discretion to determine when the Participant is no longer actively rendering Service for purposes of the Award;

9.11 the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying shares of Stock; and

9.12 the Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

10. **DATA PRIVACY.**

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Agreement and any other Award grant materials by and among, as applicable, the Employer, the Company and the Participating Company Group for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all Awards or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Participant understands that Data will be transferred to any third parties assisting the Company with the implementation, administration and management of the Plan, that these recipients may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that the Participant may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative. The Participant authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that the Participant may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Participant's local human resources representative. The Participant understands, however, that refusing or withdrawing consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that the Participant may contact the Participant's local human resources representative.

11. **LANGUAGE.**

If the Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control, unless otherwise prescribed by local law.

12. **LEGENDS.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of Stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

13. **MISCELLANEOUS PROVISIONS.**

13.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may adversely affect the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

13.2 **Nontransferability of the Award.** Prior the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

13.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

13.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and Grant Notice, as described in Section 13.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.5(a) or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.5(a).

(c) **Consent to Electronic Participation.** If requested by the Company, the Participant hereby consents to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. The Participant understands, however, that he or she is not required to consent to electronic participation as described in this Section.

13.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Award shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Notice and the Agreement shall survive any release of the Award and shall remain in full force and effect.

13.7 **Applicable Law.** The construction, interpretation and performance of this Agreement, and the transactions under it, shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflict of laws and choice of law rules.

13.8 **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

13.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14. **APPENDIX.**

Notwithstanding any provision herein, the Participant's participation in the Plan shall be subject to any special terms and conditions as set forth in the Appendix for Participant's country of residence, if any. The Appendix constitutes part of this Agreement.

Exhibit A

Certain Defined Terms

For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(a) "**Cause**" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Cause" or a substantially similar term, then Cause shall mean the occurrence of any of the following:

(i) the Participant's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any material employment or Company records;

(ii) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant's ability to perform the Participant's duties with the Company;

(iii) the Participant's intentional and repeated failure to perform stated duties after notice from the Company of, and a reasonable opportunity to cure, such failure;

(iv) the Participant's improper disclosure of the Company's confidential or Proprietary Information;

(v) any material breach by the Participant of the Company's Code of Professional Conduct, which breach shall be deemed "material" if it results from an intentional act by the Participant and has a material detrimental effect on the Company's reputation or business; or

(vi) any material breach by the Participant of this Agreement, the Participant's Employment Agreement or of any agreement regarding proprietary information and inventions, which breach, if curable, is not cured within thirty (30) days following written notice of such breach from the Company.

In the event that the Company terminates the Participant's employment for Cause, the Company shall provide written notice to the Participant of that fact prior to, or concurrently with, the termination of employment. Failure to provide written notice that the Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide the

Participant with written notice, including the facts establishing that the purported “Cause” was not known at the time of the termination, and the Company shall not be required to provide any of the benefits under Sections 4.2, 4.3 or 4.4.

(b) “**Change in Control**” shall have the meaning set forth in the Participant’s Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define “Change in Control” or a substantially similar term, then Change in Control shall mean any of the following:

(i) (X) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power represented by the Company’s then outstanding voting securities other than the acquisition of the Company’s common stock by a Company-sponsored employee benefit plan or through the issuance of shares sold directly by the Company to a single acquiror; or (Y) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing less than fifty percent (50%) of the total combined voting power represented by the Company’s then outstanding voting securities, but in connection with the person’s acquisition of securities the person acquires the right to terminate the employment of all or a portion of the Company’s management team;

(ii) the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation;

(iii) a change in the composition of the Board occurring within a period of twenty-four (24) consecutive months, as a result of which fewer than a majority of the directors are Incumbent Directors;

(iv) effectiveness of an agreement for the sale, lease or disposition by the Company of all or substantially all of the Company’s assets; or

(v) a liquidation or dissolution of the Company.

The Incumbent Directors shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company, which, in the aggregate, would result in a Change of Control, are related, and its determination shall be final, binding and conclusive.

(c) "***Change in Control Period***" shall mean the period commencing on the earlier of: (i) 60 days prior to the date of consummation of the Change in Control; (ii) the date of the first public announcement of a definitive agreement that would result in a Change in Control (even though still subject to approval by the Company's stockholders and other conditions and contingencies); or (iii) the date of the public announcement of a tender offer that is not approved by the Incumbent Directors and ending on the two year anniversary date of the consummation of the Change in Control.

(d) "***Change in Control Period Good Reason***" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Change in Control Period Good Reason" or a substantially similar term, then Change in Control Period Good Reason shall mean any of the following occurring without the Participant's written consent:

(i) a material decrease in the Participant's base salary other than as part of any across-the-board reduction applying to all senior executives of an acquiror;

(ii) a material, adverse change in the Participant's title, authority, responsibilities or duties, as measured against the Participant's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection (ii), in addition to any other material, adverse change in title, authority, responsibilities or duties, a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Participant is required to report shall constitute an event of "Change in Control Period Good Reason";

(iii) the relocation of the Participant's principal workplace to a location greater than fifty (50) miles from the prior workplace; or

(iv) any material breach by the Company of any provision of this Agreement or the Participant's Employment Agreement, which breach is not cured within thirty (30) days following written notice of such breach from the Participant;

provided that the Participant shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(e) "***Disability***" means the Participant's permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(f) "***Dividend Equivalent Units***" mean additional Restricted Stock Units credited pursuant to Section 3.3.

(g) "***Employment Agreement***" shall mean the employment agreement or similar services agreement between the Participant and the Company, a Participating Company or any of their respective affiliates as in effect from time to time.

(h) "***Incumbent Directors***" shall mean members of the Board who either (i) are members of the Board as of the date hereof, or (ii) are elected, or nominated for election, to the Board with the affirmative vote of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of members of the Board).

(i) "***Involuntary Termination***" shall mean the occurrence of one of the following:

(i) termination by the Company of the Participant's employment with the Company for any reason other than Cause at any time;

(ii) the Participant's resignation from employment for Non Change in Control Period Good Reason within six months following the occurrence of the event constituting Non Change in Control Period Good Reason; or

(iii) during a Change in Control Period, the Participant's resignation from employment for Change in Control Period Good Reason within six months following the occurrence of the event constituting Change in Control Period Good Reason.

(j) "***Non Change in Control Period Good Reason***" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Non Change in Control Period Good Reason" or a substantially similar term, then Non Change in Control Period Good Reason shall mean any of the following occurring without the Participant's written consent:

(i) a decrease in the Participant's base salary of greater than 20% in the aggregate;

(ii) a material, adverse change in the Participant's title, authority, responsibilities or duties, as measured against the Participant's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection, a material, adverse change shall not occur merely by a change in reporting relationship; or

(iii) the relocation of the Participant's principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement or the Employment Agreement, which breach is not cured within thirty (30) days following written notice of such breach from the Participant;

provided that the Participant shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(k) "***Proprietary Information***" is information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, software programs and subroutines, source and object code, algorithms, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulas, business and product development plans, vendor lists, customer lists, terms of compensation and performance levels of Company employees, and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from another person or entity.

(l) "***Release***" shall mean a general release of all known and unknown claims against the Company and its affiliates and their stockholders, directors, officers, employees, agents, successors and assigns substantially in a form reasonably acceptable to the Company, which has been executed by the Participant and not revoked within the applicable revocation period.

(m) "***Retirement***" means termination of Participant's Service at or following Participant becoming Retirement-Eligible.

(n) "***Retirement-Eligible***" means Participant is at least age 60 and has at least 5 years of Service.

(o) "***Settlement Date***" means, except as otherwise set forth in Section 4, the date on which a Unit becomes a Vested Unit in accordance with Section 4.

(p) "***Units***" mean the Restricted Stock Units originally granted pursuant to the Award and the Dividend Equivalent Units credited pursuant to the Award, as both shall be adjusted from time to time pursuant to Section 7.

E*TRADE FINANCIAL CORPORATION
NOTICE OF GRANT OF PERFORMANCE UNITS

«FIRST_NAME» «LAST_NAME» (the ***"Participant"***) has been granted an award of Performance Units (the ***"Award"***) pursuant to the E*Trade Financial Corporation 2005 Equity Incentive Plan (as amended from time to time, the ***"Plan"***), each of which represents the right to receive one (1) share of Stock of E*Trade Financial Corporation (the "***Company***") in accordance with the terms and conditions of this Notice and the Performance Units Agreement that is attached to this Notice (the "***Performance Units Agreement***"). Any capitalized term that is used but not defined in this Notice shall have the meaning set forth in the Performance Units Agreement.

Date of Grant:	**«GRANT_DATE»**
Number of Performance Units:	<u>2015 Performance Period</u> ("***2015 Performance Units***"): **«SHARES»** in respect of the EPS Goals relating to the 2015 Performance Period as determined in accordance with Exhibit A to the Performance Units Agreement. **«SHARES»** in respect of the Delivered Projects goals relating to the 2015 Performance Period as determined in accordance with Exhibit A to the Performance Units Agreement. <u>2016 Performance Period</u> ("***2016 Performance Units***"): **«SHARES»** in respect of the EPS Goals relating to the 2016 Performance Period as determined in accordance with Exhibit A to the Performance Units Agreement. **«SHARES»** in respect of the Delivered Projects goals relating to the 2016 Performance Period as determined in accordance with Exhibit A to the Performance Units Agreement. The number of 2015 Performance Units and 2016 Performance Units (together, the "***Performance Units***") listed above assumes achievement of the applicable Performance Goals at 100% of the respective target levels, and is subject to adjustment as provided in the Performance Units Agreement and the Plan.
Vesting:	The Performance Units are subject to vesting in accordance with the terms and conditions of the Performance Units Agreement. The actual number of Performance Units that may become vested is subject to the achievement of the applicable Performance Goals and may be lesser or greater than the applicable number of Performance Units listed in this Notice.
Settlement Dates:	Unless otherwise specified in the Performance Units Agreement, any shares of Stock that become deliverable to the Participant under the terms and conditions of the Performance Units Agreement shall be delivered to the Participant as follows: <u>2015 Performance Units</u>: As soon as practicable following the Company's determination of the achievement of the Performance Goals relating to the 2015 Performance Period, but in no event later than March 15, 2016. <u>2016 Performance Units</u>: As soon as practicable following the Company's determination of the achievement of the Performance Goals relating to the 2016 Performance Period, but in no event later than March 15, 2017.

The Participant acknowledges that copies of the Plan, Performance Units Agreement and the prospectus for the Plan are available on the Company's internal web site and may be viewed and printed by the Participant for attachment to the Participant's copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Plan and Performance Units Agreement, and hereby accepts the Award subject to all of their terms and conditions.

By their signatures below or by electronic acceptance or authentication in a form authorized by the Company, the Company and the Participant agree that the Award is governed by this Notice and by the provisions of the Plan and the Performance Units Agreement, both of which are made a part of this document.

E*TRADE FINANCIAL CORPORATION PARTICIPANT

By: __________ ___________
Signature

Its: ________ ____________
Date

Address: 1271 Avenue of the Americas
14th Floor
New York, NY 10020-1302

E*TRADE FINANCIAL CORPORATION
PERFORMANCE UNITS AGREEMENT

E*TRADE Financial Corporation has granted to the Participant named in the *Notice of Grant of Performance Units* (the "***Grant Notice***") to which this Performance Units Agreement (this "***Agreement***") is attached an Award consisting of Performance Units that are subject to the terms and conditions set forth in the Grant Notice and this Agreement (the "***Performance Units***"). The Performance Units have been granted pursuant to the E*TRADE Financial Corporation 2005 Equity Incentive Plan (as amended from time to time, the "***Plan***"), the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan (the "***Plan Prospectus***"), (b) accepts the grant of the Performance Units subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

2.1 **Committee Authority.** All questions of interpretation concerning the Grant Notice and this Agreement shall be determined by the "Committee" (as defined below). All determinations by the Committee shall be final and binding upon all persons having an interest in this Agreement or the Award, including the Participant. Any Officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

2.2 **Definition of Committee.** For purposes of this Agreement, the "***Committee***" means the Compensation Committee, the Governance Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board; provided that if no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

3. **THE AWARD.**

3.1 **Grant of Performance Units.**

(a) General Information. The Performance Units have been granted to the Participant effective as of the Date of Grant set forth in the Grant Notice, and consist of (i) Performance Units relating to Performance Goals in respect of the 2015 Performance Period (the "***2015 Performance Units***") and (ii) Performance Units relating to Performance Goals in respect of the 2016 Performance Period (the "***2016 Performance Units***"). The Performance Units are subject to all of the terms and conditions of the Grant Notice, the Plan and this Agreement. Except as otherwise specified in this Agreement, each Performance Unit represents a right to receive one (1) share of Stock on the applicable Settlement Date referenced in the Grant Notice (the "***Settlement Date***").

(b) 2015 Performance Units. The number of 2015 Performance Units that ultimately become eligible for vesting upon achievement of the relevant Performance Goals in accordance with the applicable subsection of Section 4 of this Agreement (the "***2015 Vesting Eligible Units***") shall be determined by the Committee in its sole discretion in accordance with the terms and conditions of Exhibit A hereto and the number of 2015 Vesting Eligible Units that actually become vested in accordance with the applicable subsection of Section 4 of this Agreement are referred to in this Agreement as the "***2015 Vested Units***".

(c) 2016 Performance Units. The number of 2016 Performance Units that ultimately become eligible for vesting upon achievement of the relevant Performance Goals in accordance with the applicable subsection of Section 4 of this Agreement (the "***2016 Vesting Eligible Units***" and together with the 2015 Vesting Eligible Units, the "***Vesting Eligible Units***") shall be determined by the Committee in its sole discretion in accordance with the terms and conditions of Exhibit A hereto and the number of 2016 Vesting Eligible Units that actually become vested in accordance with the applicable subsection of Section 4 of this Agreement are referred to in this Agreement as the "***2016 Vested Units***".

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment as a condition to receiving the Performance Units or any shares of Stock issued in respect thereof.

3.3 **Dividend Equivalents.** If while the Performance Units are outstanding the Company declares a dividend with respect to the shares of Stock, then on the payment date for such dividend the Participant shall be credited with additional Performance Units equal to (a) the product of (i) the total number of Performance Units held by the Participant and (ii) the per-share dollar amount of such dividend, divided by (b) the Fair Market Value per share of Stock on the payment date of such dividend (the "***Dividend Equivalent Units***").

4. **VESTING AND SETTLEMENT OF PERFORMANCE UNITS**.

4.1 **Vesting and Settlement Upon Continued Service.** Except as otherwise set forth in Section 4.2 or Section 4.3, the Performance Units shall become vested and be settled as set forth in this Section 4.1.

(a) 2015 Performance Units. If the Participant remains in continuous Service through the applicable Settlement Date in respect of the 2015 Performance Units, then the Company shall deliver to the Participant, in full satisfaction of the Participant's rights with respect to the 2015 Performance Units, a number of shares of Stock on the applicable Settlement Date equal to the sum of (i) the 2015 Vesting Eligible Units and (ii) the Dividend Equivalent Units credited to the Participant with respect to the 2015 Vesting Eligible Units.

(b) 2016 Performance Units. If the Participant remains in continuous Service through the applicable Settlement Date in respect of the 2016 Performance Units, then the Company shall deliver to the Participant, in full satisfaction of the Participant's rights with respect to the 2016 Performance Units, a number of shares of Stock on the applicable Settlement Date equal to the sum of (i) the 2016 Vesting Eligible Units and (ii) the Dividend Equivalent Units credited to the Participant with respect to the 2016 Vesting Eligible Units.

4.2 **Treatment Upon Certain Terminations of Employment Prior to a Change in Control.** Notwithstanding anything set forth in Section 4.1 to the contrary, the Performance Units shall become vested and be settled upon a termination of the Participant's Service as set forth in this Section 4.2.

(a) Termination as a Result of Death or Disability. If the Participant's Service terminates as a result of either (i) the Participant's death or (ii) the Participant's Disability, in each case that occurs prior to the earlier of (x) the Settlement Date in respect of the 2016 Performance Units and (y) a Change in Control, then the Company shall deliver the following number of shares of Stock to the Participant in full satisfaction of the Award as soon as practicable after the date of such termination, but in no event later than the earliest applicable Settlement Date following the date of such termination:

(i) If such termination occurs on or prior to December 31, 2015, a number of shares of Stock equal to the sum of (1) the product of (A) the total number of shares of Stock that would have been delivered to the Participant in respect of the 2015 Performance Units and 2016 Performance Units upon achievement of the applicable Performance Goals at 100% of the respective target levels ("***Target Performance Level***") and (B) a fraction, the numerator of which is the total number of days elapsed between January 1, 2015 and the date of such termination and the denominator of which is 730 and (2) any related Dividend Equivalent Units credited as of the date of such termination.

(ii) If such termination occurs between January 1, 2016 and December 31, 2016 (inclusive), a number of shares of Stock equal to the sum of (1) the number of 2015 Performance Units that the Company determines in good faith would become 2015 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2015 Performance Units, if not settled as of the date of such termination, (2) the product of (A) the total number of 2016 Performance Units that would have been delivered to the Participant upon achievement of the Target Performance Level and (B) a fraction, the numerator of which is the total number of days elapsed between January 1, 2015 and the date of such termination and the denominator of which is 730 and (3) any related Dividend Equivalent Units credited as of the date of such termination.

(iii) If such termination occurs between January 1, 2017 and the Settlement Date in respect of the 2016 Performance Units, a number of shares of Stock equal to the sum of (1) the number of 2016 Performance Units that the Company determines in good faith would become 2016 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2016 Performance Units, if not settled as of the date of such termination and (2) any related Dividend Equivalent Units credited as of the date of such termination.

(b) Termination as a Result of Retirement. If the Participant's Service terminates as a result of "Retirement" (as defined below) prior to the earlier of the Settlement Date in respect of the 2016 Performance Units and a Change in Control, then the Company shall deliver the following number of shares of Stock to the Participant in full satisfaction of the Award:

(i) If such termination occurs on or prior to December 31, 2015, a number of shares of Stock equal to:

(1) the sum of (A) the product of the number of 2015 Performance Units that the Company determines in good faith would become 2015 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2015 Performance Units and a fraction, the numerator of which is the total number of days elapsed between January 1, 2015 and the date of such termination and the denominator of which is 730 and (B) any related Dividend Equivalent Units credited in respect of the 2015 Performance Units as of the date of such termination, with such delivery to occur on the applicable Settlement Date in respect of the 2015 Performance Units; and

(2) the sum of (A) the product of the number of 2016 Performance Units that the Company determines in good faith would become 2016 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2016 Performance Units and a fraction, the numerator of which is the total number of days elapsed between January 1, 2015 and the date of such termination and the denominator of which is 730 and (B) any related Dividend Equivalent Units credited in respect of the 2016 Performance Units as of the date of such termination (the "***2016 Pro-Rata Payment***"), with such delivery to occur on the applicable Settlement Date in respect of the 2016 Performance Units.

(ii) If such termination occurs between January 1, 2016 and December 31, 2016 (inclusive), a number of shares of Stock equal to:

(1) the sum of (A) the number of 2015 Performance Units that the Company determines in good faith would become 2015 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2015 Performance Units, if not settled as of the date of such termination, and (B) any related Dividend Equivalent Units credited in respect of the 2015 Performance Units as of the date of such termination, with such delivery to occur on the applicable Settlement Date in respect of the 2015 Performance Units; and

(2) the 2016 Pro-Rata Payment, with such delivery to occur on the applicable Settlement Date in respect of the 2016 Performance Units.

(iii) If such termination occurs between January 1, 2017 and the Settlement Date in respect of the 2016 Performance Units, a number of shares of Stock equal to the sum of (1) the number of 2016 Performance Units that the Company determines in good faith would become 2016 Vested Units if the Participant remained in Service through the applicable Settlement Date in respect of the 2016 Performance Units, if not settled as of the date of such termination and (2) any related Dividend Equivalent Units credited as of the date of such termination.

For purposes of this Agreement, (i) "***Retirement***" means termination of the Participant's Service on or after the date on which the Participant becomes "Retirement-Eligible" and (ii) "***Retirement-Eligible***" means the date on which the Participant has both (x) attained age 60 and (y) accrued at least five years of Service.

4.3 **Treatment Upon and Following a Change in Control.** Notwithstanding anything set forth in Section 4.1 to the contrary, the Performance Units shall be subject to the treatment set forth in this Section 4.3 upon and following a Change in Control.

(a) <u>Effect of a Change in Control</u>. If a Change in Control occurs while the Participant remains in continuous Service and prior to the Settlement Date in respect of the 2016 Performance Units, the Performance Units that are outstanding immediately prior to the Change in Control (the "***CIC Units***") (i) shall no longer be subject to the applicable Performance Goals and (ii) if the Participant remains in continuous Service through the applicable Settlement Date in respect of the applicable CIC Units, shall be settled on the applicable Settlement Date in a number of shares of Stock equal to the sum of (x) the number of shares of Stock that would have been delivered to the Participant in respect of the applicable CIC Units on the applicable Settlement Date upon achievement of the Target Performance Level and (y) any related Dividend Equivalent Units credited to the Participant with respect to the applicable CIC Units being settled.

(b) <u>Treatment Upon Certain Events Occurring On or Following a Change in Control</u>. Notwithstanding anything set forth in Section 4.3(a) to the contrary, if on or following a Change in Control and prior to the Settlement Date in respect of the 2016 Performance Units, either (i) the Participant's Service terminates as a result of (x) an "Involuntary Termination After Change in Control" (as defined below), (y) the Participant's death or (z) the Participant's Disability or (ii) the Participant is or becomes Retirement-Eligible, then the Company shall deliver to the Participant, within ten (10) days following the date of the applicable event in the case of subsection (i) of this Section 4.3(b) or, in the case of clause (ii) of this Section 4.3(b), on the immediately following

Settlement Date and, in each case, in full satisfaction of the Award, the number of shares of Stock that would have been delivered to the Participant in accordance with Section 4.3(a) if the Participant remained in Service through the applicable Settlement Date in respect of the 2016 Performance Units.

(c) Definition of Involuntary Termination After Change in Control. For purposes of this Agreement, "***Involuntary Termination After Change in Control***" shall mean either of the following events occurring within 24 months after a Change in Control: (i) termination by the Participating Company Group of the Participant's Service for any reason other than for Cause or (ii) the Participant's voluntary resignation of Service following (A) a reduction in the Participant's level of compensation (including base salary, fringe benefits and target bonus under any corporate performance based bonus or incentive programs) by more than fifteen percent (15%) or (B) a relocation of the Participant's place of employment by more than fifty (50) miles, provided and only if such reduction or relocation is effected without the Participant's express written consent. In the event such term, or the substantive equivalent, is defined in a contract of employment or service, such definition will take precedence over this definition.

4.4 **Treatment Upon Other Types of Terminations.**

(a) Termination for Cause. If the Participant's Service is terminated for Cause prior to the Settlement Date in respect of the 2016 Performance Units, then all of the then-outstanding Performance Units and any related Dividend Equivalent Units shall immediately be forfeited and cancelled without the payment of any consideration to the Participant.

(b) Termination for Any Other Reason. If the Participant's Service terminates prior to the Settlement Date in respect of the 2016 Performance Units for any reason not set forth in Sections 4.2, 4.3 or 4.4(a), then all of the then-outstanding Performance Units and any related Dividend Equivalent Units will be immediately cancelled and forfeited without the payment of any consideration to the Participant unless the Committee determines to provide for the vesting and settlement of all or some of such Performance Units or Dividend Equivalent Units in its sole discretion.

5. **CERTAIN RESTRICTIONS.**

5.1 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares of Stock acquired by the Participant hereunder. Except as provided by the preceding sentence or as otherwise determined by the Company, a certificate for the shares of Stock issued hereunder shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

5.2 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Performance Units and issuance of shares of Stock hereunder shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares of Stock hereunder shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the issuance of shares of Stock hereunder, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

5.3 **Fractional Shares.** The Company shall not be required to issue fractional shares of Stock hereunder.

6. **TAX WITHHOLDING AND OTHER TAX ISSUES.**

6.1 **Tax Withholding.**

(d) In General. Regardless of any action the Company and/or the Participating Company employing the Participant (the "***Employer***") take with respect to any or all income tax (including the U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related withholding (the "***Tax-Related Items***"), the Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by the Participant is and remains the Participant's responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant or vesting of the Performance Units, the subsequent sale of any shares of Stock acquired upon vesting and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate Participant's liability for Tax-Related Items.

(e) Withholding Methods. Prior to the relevant taxable event, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or the Employer. In this regard, if permissible under local law, the Participant authorizes the Company and/or the Employer, at its discretion, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Participant by one or a combination of the following: (a) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; (b) withholding from the proceeds of the sale of shares of Stock acquired upon vesting of the Award; (c) arranging for the sale of shares of Stock otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization); or (d) withholding otherwise deliverable shares of Stock, provided that the Company only withholds the amount of shares necessary to satisfy the minimum withholding amount or such other amount as may be necessary to avoid adverse accounting treatment. If the Company satisfies the obligation for Tax-Related Items by withholding a number of shares as described herein, the Participant shall be deemed, for tax purposes only, to have been issued the full number of shares of Stock subject to the Vested Units, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award.

6.2 **Section 409A.** The intent of the parties is that this Agreement comply with Section 409A of the Code ("***Section 409A***") to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and be administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, (i) the Participant shall not be considered to have terminated Service for purposes hereof until the Participant would be considered to have incurred a "separation from service" within the meaning of Section 409A and (ii) if the Participant is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, shares of Stock that would otherwise be issued hereunder upon the Participant's termination of Service shall instead be issued on the first business day after the first to occur of (a) the date that is six months following the Participant's termination of Service and (b) the date of the Participant's death. The Company makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A and makes no undertaking to preclude Section 409A from applying to any such payment. The Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A.

7. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or other change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, the Committee shall make appropriate and proportionate adjustments in the number of outstanding Performance Units and/or the number and kind of shares or other property to be issued in respect of Vested Units and Dividend Equivalent Units, in each case to the extent determined by the Committee to be necessary to prevent dilution or enlargement of the Participant's rights hereunder. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

8. **RIGHTS AS A STOCKHOLDER OR SERVICE PROVIDER.**

The Participant shall have no rights as a stockholder with respect to any shares of Stock underlying the Performance Units or Dividend Equivalent Units granted hereunder until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 3.3 and Section 7. Nothing in this Agreement shall confer upon the Participant any right to continue in Service or interfere in any way with any right of the Company to terminate the Participant's Service at any time.

9. **ACKNOWLEDGEMENT OF NATURE OF PLAN AND AWARD.** In accepting the grant of the Performance Units, the Participant acknowledges that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units or other Awards, or benefits in lieu thereof, even if Performance Units or other Awards have been granted repeatedly in the past;

(c) all decisions with respect to future grants of Performance Units or other Awards, if any, will be at the sole discretion of the Company;

(d) the Participant is voluntarily participating in the Plan;

(e) the Performance Units are an extraordinary item that do not constitute compensation of any kind for Service of any kind rendered to the Company or the Employer, and are outside the scope of the Participant's employment or service contract, if any;

(f) the Performance Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, any nonqualified pension or retirement benefits, welfare benefits or similar payments and, except to the extent provided under the written terms of the applicable plan, any qualified pension benefits, and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

(g) the future value of the underlying shares of Stock is unknown and cannot be predicted with certainty;

(h) in consideration of the grant of the Performance Units, no claim or entitlement to compensation or damages shall arise from termination of this Agreement or the Performance Units granted hereunder or from any diminution in value of the shares of Stock issued hereunder and the Participant irrevocably releases the Company from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

(i) the Committee shall have the exclusive discretion to determine when the Participant is no longer rendering Services for purposes of this Agreement and the Plan;

(j) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying shares of Stock; and

(k) the Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

10. **MISCELLANEOUS PROVISIONS.**

10.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may adversely affect the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

10.2 **Nontransferability of the Award.** Neither this Agreement nor any of the Participant's rights hereunder shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights under or with respect to this Agreement shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

10.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

10.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

10.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the

Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 10.5(a) of this Agreement and consents to the electronic delivery of the Plan documents, as described in Section 10.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 10.5(a) or may change the e-mail address to which such documents are to be delivered (if the Participant has provided an e-mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or e-mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 10.5(a).

(c) **Consent to Electronic Participation.** If requested by the Company, the Participant hereby consents to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. The Participant understands, however, that he or she is not required to consent to electronic participation as described in this Section.

10.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with any other agreement between the Participant and a Participating Company referring to the Award shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Notice and this Agreement shall survive any release of the Award and shall remain in full force and effect.

10.7 **Applicable Law.** The construction, interpretation and performance of this Agreement, and the transactions under it, shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflict of laws and choice of law rules.

10.8 **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

10.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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Exhibit A

Vesting of Performance Units

The percentage of 2015 Performance Units and 2016 Performance Units set forth in the Grant Notice that shall become Vesting Eligible Units shall be determined by the Committee in its sole discretion in accordance with the terms of this Exhibit A.

1. 2015 Performance Period.

(a) EPS Goals. The percentage of the number of 2015 Performance Units listed in the Grant Notice in respect of the EPS Goals for the 2015 Performance Period that shall become 2015 Vesting Eligible Units shall be based on the achievement of EPS Goals determined by the Company and communicated to the Participant as soon as practicable following the date hereof.

(b) Delivered Projects Goals. The percentage of the number of 2015 Performance Units listed in the Grant Notice in respect of the Delivered Projects goals for the 2015 Performance Period that shall become 2015 Vesting Eligible Units shall be based on the achievement of Delivered Projects Goals determined by the Company and communicated to the Participant as soon as practicable following the date hereof.

2. 2016 Performance Period.

(a) EPS Goals. The percentage of the number of 2016 Performance Units listed in the Grant Notice in respect of the EPS Goals for the 2016 Performance Period that shall become 2016 Vesting Eligible Units shall be based on the achievement of EPS Goals determined by the Company and communicated to the Participant as soon as practicable following January 1, 2016.

(b) Delivered Projects Goals. The percentage of the number of 2016 Performance Units listed in the Grant Notice in respect of the Delivered Projects goals for the 2016 Performance Period that shall become 2016 Vesting Eligible Units shall be based on the achievement of Delivered Projects Goals determined by the Company and communicated to the Participant as soon as practicable following January 1, 2016.

4. Defined Terms. For purposes of this Exhibit A, the following terms shall have the respective meanings set forth below:

(a) "***2015 Performance Period***" means the period beginning on January 1, 2015 and ending on December 31, 2015.

(b) "***2016 Performance Period***" means the period beginning on January 1, 2016 and ending on December 31, 2016.

(c) "***Delivered Projects***" means those projects with respect to the 2015 Performance Period or 2016 Performance Period, as applicable, that are communicated to the Participant in accordance with this Exhibit A.

(d) "***EPS Goals***" means the applicable amounts of the Company's earnings per share for the 2015 Performance Period or 2016 Performance Period, as applicable, that are communicated to the Participant in accordance with this Exhibit A.

[End of Exhibit A]

FORM EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") is made and entered into by and between E*TRADE Financial Corporation (the "**Company**") and [ ] ("**Executive**") as of [20[ ]], (the "**Effective Date**").

1. *Position and Duties*: As of the Effective Date, Executive will (become/continue in the role as) [ ]. Executive agrees to devote all necessary time, energy and skill to Executive's duties at the Company.

The Company shall provide Executive with the same indemnification and D&O insurance protection provided from time to time to its officers and directors generally. Notwithstanding anything to the contrary in this Agreement, the rights of Executive to indemnification and the D&O insurance coverage with respect to all matters, events or transactions occurring or effected during the Executive's period of employment with the Company shall survive the termination of Executive's employment.

2. *Term of Agreement*: This Agreement shall remain in effect through December 31, 20[ ] (the "**Term**"), unless Executive's employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable. The Term of this Agreement shall automatically renew for additional one-year periods (each one-year period following December 31, 20[ ], a "**Successive Term**") unless either party provides at least ninety days' prior written notice of termination of the Agreement; *provided* that in the event of a Change in Control during the Term (or any Successive Term) of this Agreement, this Agreement may not be terminated until 24 months following such Change in Control. Executive's employment with the Company shall be "at-will". Unless Executive terminates Executive's employment prior to the end of the Term or any Successive Term pursuant to the terms of this Agreement (for the avoidance of doubt, including to the extent an Involuntary Termination occurs following the Company's delivery of notice of its non-renewal of this Agreement pursuant to the preceding sentence), Executive's continued employment following the end of the Term or any Successive Term shall continue to be on an at-will basis and on such terms and conditions as the parties may agree.

3. *Compensation*: During the Term or any Successive Term, Executive shall be compensated by the Company for Executive's services as follows:

(a) *Base Salary*: Executive shall be paid an annualized base salary of $[ ] per year, subject to applicable withholding, in accordance with the Company's normal payroll procedures. Executive's base salary may be adjusted from time to time in the discretion of the Company, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 7) (this is referred to as the "**Base Salary**").

(b) *Performance Bonus*: Executive shall have the opportunity to earn an annual performance bonus. The performance bonus shall be earned upon the Executive and the Company meeting pre-established performance targets. Executive's current cash bonus target amount is $[ ]. The annual cash bonus, if earned, will be paid at the same time and in the same manner as payments to similarly situated executives of the Company and, except as expressly provided otherwise in this Agreement or in the applicable bonus plan document, shall not be earned unless Executive remains employed with the Company on the date of payment.

(c) *Benefits*: Executive shall have the right, on the same basis as other senior executives of the Company, to participate in and to receive benefits under any of the Company's employee benefit plans, as such plans may be modified from time to time.

4. *Equity Compensation*. Executive will be eligible to receive equity compensation awards from time to time if the Company's Board of Directors or its designee, in its sole discretion, determines that such an award(s) is appropriate.

5. *Effect of Termination of Employment During the Term or any Successive Term*:

(a) *Involuntary Termination outside a Change in Control Period*: If Executive's employment with the Company is terminated as a result of an Involuntary Termination outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to one times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a pro rata share of the target performance bonus for the year in which termination of employment occurs, *provided* that the Company's performance meets the target performance level for the year of termination, as determined at year-end, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 12 months following Executive's termination of employment, or (B) the time Executive begins alternative employment; *provided* that (x) it shall be the obligation of Executive to inform the Company that new employment has been obtained and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(iv) any options, restricted stock awards, restricted stock units and other equity awards at any particular time that are subject to vesting based solely on the Executive's continued employment ("**Time-Based Equity Grants**") and that are unvested on the date of termination of employment (collectively, the "**Post-Termination Awards**") shall not terminate, but will remain eligible to become vested (and, with respect to restricted stock units ("**RSUs**"), converted into shares) on their normal vesting dates as if Executive's employment had not terminated (the "**Scheduled Vesting Date**"); *provided* that all of the Post-Termination Awards will be canceled immediately if any of the following events (the "**Post-Termination Events**") occur at any time before the applicable Scheduled Vesting Date:

- Executive acts in any manner that the Compensation Committee of the Company Board of Directors (the "**Committee**") determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;
- during the 12-month period following termination of employment, Executive fails to comply with the covenants in Section 6 hereof;
- Executive encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company
- Executive, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;
- Executive disparages the Company or its officers, directors, employees, products or services;
- Executive misuses or discloses Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality

agreement or any other agreement between Executive and the Company (or any of its affiliates), or breaches the Release;

- Executive fails or refuses to cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Executive may have pertinent information; or

- the Company determines that Executive's employment could have been terminated for Cause (regardless of any "cure" periods) or that Executive's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

Notwithstanding the foregoing, (i) the Post-Termination Awards shall become fully vested and, if applicable, settled upon the death of Executive or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "***409A Change in Control***") and (ii) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (1) the applicable Scheduled Vesting Date, (2) the date the Release becomes effective and (3) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another.

(b) *Involuntary Termination during a Change in Control Period*: If Executive's employment with the Company is terminated as a result of an Involuntary Termination during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to two times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a pro rata share of the target performance bonus for the year in which termination of employment occurs, *provided* that the Company's performance meets the target performance level for the year of termination, as determined at year-end, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such termination occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section 5(b) in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year;

(iv) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 24 months following Executive's termination of employment, or (B) the time Executive begins alternative employment; *provided* that (x) it shall be the obligation of Executive to inform the Company that new employment has been obtained and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(c) *Death or Disability*.

(i) In the event of Executive's death or termination as a result of Disability, all Time-Based Equity Grants held by Executive, to the extent then outstanding, shall become fully vested (and, with respect to RSUs, converted into shares) as of the date of such termination.

(ii) In the event the Executive's employment terminates as a result of Executive's death or Permanent Disability, Executive (or Executive's estate, as applicable) shall be entitled to a pro rata share of the Executive's cash or other performance bonus to the date of death or Permanent Disability, based on target performance.

(d) *Retirement and Retirement Eligibility*.

(i) *Retirement outside a Change in Control Period*: If Executive's employment with the Company is terminated as a result of Executive's Retirement outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, any Post-Termination Awards shall not terminate, but will remain eligible to become vested (and, with respect to RSUs, converted into shares) on the applicable Scheduled Vesting Dates; *provided* that (1) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (x) the applicable Scheduled Vesting Date, (y) the date the Release becomes effective and (z) the 60^{th} day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another, (2) all of the Post-Termination Awards will be canceled immediately if any of the Post-Termination Events occur at any time before the applicable Scheduled Vesting Date and (3) notwithstanding anything set forth in this paragraph to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a 409A Change in Control.

(ii) *Retirement-Eligibility during a Change in Control Period*: If Executive is or becomes Retirement-Eligible during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date thereof, each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such Retirement-Eligibility occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

(e) *Other Termination*: In the event of a termination of Executive's employment not specified under Section 5(a), Section 5(b), Section 5(c) or Section 5(d) above, including, without limitation, a termination for Cause, Executive shall not be entitled to any compensation or benefits from the Company, other than those earned and unpaid under Section 3 through the date of Executive's termination and, in the case of each stock option, restricted stock award or other Company stock-based award granted to Executive, the extent to which such awards are vested through the date of Executive's termination or as otherwise provided in the applicable award agreement.

6. *Agreement Not to Compete*:

(a) During Executive's employment with the Company and for twelve (12) months thereafter, Executive shall not hold any position, or engage in any activities as an employee, agent, contractor, or otherwise, with

(v) [ ] ("**Competitors**"), or

(vi) any of Competitors' affiliates, subsidiaries, successors or assigns;

provided that the Company shall have the right to revise the list of Competitors from time to time upon written notice to Executive but no more than once during the Term or any Successive Term, but not after Executive has given the Company notice that [his/her] employment with the Company will terminate, and only so long as the list of Competitors is comprised of no more than four (4) entities.

(b) Executive acknowledges that the restrictions contained in this Section 6, in view of the nature of the business in which the Company is engaged, are reasonable and necessary in order to protect the legitimate interests of the Company, and that any violation thereof would result in irreparable injuries to the Company, and the Executive therefore acknowledges that, in the event of Executive's violation of any of these restrictions, the Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief (without the posting of any bond) as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such a violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

(c) The invalidity or unenforceability of any provision or provisions of this Section 6 shall not affect the validity or enforceability of any other provision or provisions of this Section 6, which shall remain in full force and effect. If any provision of this Section 6 is held to be invalid, void or unenforceable in any jurisdiction, any court or arbitrator so holding shall substitute a valid, enforceable provision that preserves, to the maximum lawful extent, the terms and intent of this Agreement.

7. *Certain Tax Considerations*:

(a) *Section 409A*:

(iii) The payments under Section 5 are intended to qualify for the short-term deferral exception to Section 409A of the Code ("**Section 409A**") described in the regulations promulgated under Section 409A (the "**Section 409A Regulations**") to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in the Section 409A Regulations to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to comply with Section 409A, and shall be interpreted and construed and shall be performed by the parties consistent with such intent, and the Company shall have no right, without Executive's consent, to accelerate any payment or the provision of any benefits under this Agreement if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A. To the extent any payment hereunder is determined to be deferred compensation subject to Section 409A and the timing of such payment is conditioned on the Release becoming effective, then to the extent required to avoid penalty under Section 409A, any such payment hereunder that could be paid in either of two taxable years shall be made in the second taxable year.

(iv) Without limiting the generality of the foregoing, if Executive is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of termination of employment, then to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following such termination date shall instead be paid (together with interest at the then current six-month LIBOR rate) on the first business day after the first to occur of (i) the date that is six months following Executive's termination of employment and (ii) the date of Executive's death.

(v) Except as expressly provided otherwise herein, no reimbursement payable to Executive pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of the Company covered by this Agreement shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(vi) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of Executive's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code; *provided*, however, that, in the event of the Executive's Permanent Disability, "separation from service" means the date that is six months after the first day of disability.

(b) *280G Limitation*:

(iii) If the payments and benefits provided to Executive under this Agreement, either alone or together with other payments and benefits provided to Executive from the Company (including, without limitation, any accelerated vesting thereof) (the "**Total Payments**"), would constitute a "parachute payment" (as defined in Section 280G of the Code) and be subject to the excise tax (the "**Excise Tax**") imposed under Section 4999 of the Code, the Total Payments shall be reduced if and to the extent that a reduction in the Total Payments would result in Executive retaining a larger amount than if Executive received all of the Total Payments, in each case measured on an after-tax basis (taking into account federal, state and local income taxes and, if applicable, the Excise Tax). The determination of any reduction in the Total Payments shall be made at the Company's cost by the Company's independent public accountants or another firm designated by the Company and reasonably approved by Executive, and may be determined using reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company shall pay Executive's costs incurred for tax, accounting and other professional advice in the event of a challenge of any such reasonable, good faith interpretations by the Internal Revenue Service.

(iv) In the case of a reduction in the Total Payments pursuant to Section 7(b)(i), the Total Payments will be reduced in the following order: (a) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (b) payments and benefits due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; (c) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with amounts that are payable last reduced first, will next be reduced; (d) payments and benefits due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; and (e) all other non-cash benefits not otherwise described in clauses (b) or (d) will be next reduced pro-rata.

8. *Certain Definitions*: For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(a) "**Cause**" shall mean any of the following:

(v) Executive's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any material employment or Company records;

(vi) Executive's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs Executive's ability to perform Executive's duties with the Company;

(vii) Executive's intentional and repeated failure to perform stated duties after notice from the Company of, and a reasonable opportunity to cure, such failure;

(viii) Executive's improper disclosure of the Company's confidential or Proprietary Information;

(ix) any material breach by Executive of the Company's Code of Professional Conduct, which breach shall be deemed "material" if it results from an intentional act by Executive and has a material detrimental effect on the Company's reputation or business; or

(x) any material breach by Executive of this Agreement or of any agreement regarding proprietary information and inventions, which breach, if curable, is not cured within thirty (30) days following written notice of such breach from the Company.

In the event that the Company terminates Executive's employment for Cause, the Company shall provide written notice to Executive of that fact prior to, or concurrently with, the termination of employment. Failure to provide written notice that the Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide Executive with written notice, including the facts establishing that the purported "Cause" was not known at the time of the termination, and the Company will pay no severance.

(b) "**Change in Control**" shall mean the occurrence of any of the following events:

(i) (X) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power represented by the Company's then outstanding voting securities other than the acquisition of the Company's common stock by a Company-sponsored employee benefit plan or through the issuance of shares sold directly by the Company to a single acquiror; or (Y) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing less than fifty percent (50%) of the total combined voting power represented by the Company's then outstanding voting securities, but in connection with the person's acquisition of securities the person acquires the right to terminate the employment of all or a portion of the Company's management team;

(ii) the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation;

(iii) a change in the composition of the Board occurring within a period of twenty-four (24) consecutive months, as a result of which fewer than a majority of the directors are Incumbent Directors;

(iv) effectiveness of an agreement for the sale, lease or disposition by the Company of all or substantially all of the Company's assets; or

(v) a liquidation or dissolution of the Company.

The Incumbent Directors shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company, which, in the aggregate, would result in a Change of Control, are related, and its determination shall be final, binding and conclusive.

(c) "**Code**" means the Internal Revenue Code of 1986, as amended.

(d) "**Change in Control Period**" shall mean the period commencing on the earlier of: (i) 60 days prior to the date of consummation of the Change in Control; (ii) the date of the first public announcement of a definitive agreement that would result in a Change in Control (even though still subject to approval by the Company's stockholders and other conditions and contingencies); or (iii) the date of the public announcement of a tender offer that is not approved by the Incumbent Directors and ending on the two year anniversary date of the consummation of the Change in Control.

(e) "**Change in Control Period Good Reason**" shall mean any of the following conditions:

(i) a material decrease in Executive's Base Salary other than as part of any across-the-board reduction applying to all senior executives of an acquiror;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; *provided* that for purposes of this subsection (ii), in addition to any other material, adverse change in title, authority, responsibilities or duties, a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report shall constitute an event of "Change in Control Period Good Reason";

(iii) the relocation of Executive's principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company's delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

(v) any failure of the Company to obtain the assumption (by operation of law or by contract) of this Agreement by any successor or assign of the Company; or

(vi) any purported termination of Executive's employment for "material breach of contract" which is purportedly effected without providing the "cure" period, if applicable, described in Section 7(a)(vi), above;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(f) "**Incumbent Directors**" shall mean members of the Board who either (i) are members of the Board as of the date hereof, or (ii) are elected, or nominated for election, to the Board with the affirmative vote of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of members of the Board).

(g) "**Involuntary Termination**" shall mean the occurrence of one of the following:

(i) termination by the Company of Executive's employment with the Company for any reason other than Cause at any time;

(ii) Executive's resignation from employment for Non Change in Control Period Good Reason within six months following the occurrence of the event constituting Non Change in Control Period Good Reason; or

(iii) during a Change in Control Period, Executive's resignation from employment for Change in Control Period Good Reason within six months following the occurrence of the event constituting Change in Control Period Good Reason.

(h) "**Non Change in Control Period Good Reason**" shall mean any of the following conditions first occurring outside of a Change in Control Period and occurring without Executive's written consent:

(i) a decrease in Executive's Base Salary of greater than 20% during the Term or any Successive Term, in the aggregate;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; *provided* that for purposes of this subsection, a material, adverse change shall not occur merely by a change in reporting relationship; or

(iii) the relocation of Executive's principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company's delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(i) "**Permanent Disability**" shall mean Executive's permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(j) "**Proprietary Information**" is information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, software programs and subroutines, source and object code, algorithms, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulas, business and product development plans, vendor lists, customer lists, terms of compensation and performance levels of Company employees, and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from another person or entity.

(k) "**Release**" shall mean a general release of all known and unknown claims against the Company and its affiliates and their stockholders, directors, officers, employees, agents, successors and assigns substantially in a form reasonably acceptable to the Company, which has been executed by Executive and not revoked within the applicable revocation period.

(l) "**Retirement**" means termination of the Executive's employment at or following the Executive becoming Retirement-Eligible.

(m) "**Retirement-Eligible**" means the Executive is at least age 60 <u>and</u> has at least 5 years of service with the Company and its affiliates.

9. *Insider Trading Policy*: Executive agrees to abide by the terms and conditions of the Company's Insider Trading Policy, as it may be amended from time to time.

10. *Dispute Resolution*: In the event of any dispute or claim relating to or arising out of this Agreement (including, but not limited to, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Executive and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in New York, New York in accordance with its National Employment Dispute Resolution rules. Executive acknowledges that by accepting this arbitration provision Executive is waiving any right to a jury trial in the event of such dispute. In connection with any such arbitration, the Company shall bear all costs not otherwise borne by a plaintiff in a court proceeding.

11. *Attorneys' Fees*: The prevailing party shall be entitled to recover from the losing party its attorneys' fees and costs incurred in any action brought to enforce any right arising out of this Agreement. The Company shall pay Executive's reasonable legal fees in connection with the review and negotiation of this Agreement and any ancillary services related thereto.

12. *General.*

(a) *Successors and Assigns*: The provisions of this Agreement shall inure to the benefit of and be binding upon the Company, Executive and each and all of their respective heirs, legal representatives, successors and assigns. The duties, responsibilities and obligations of Executive under this Agreement shall be personal and not assignable or delegable by Executive in any manner whatsoever to any person, corporation, partnership, firm, company, joint venture or other entity. Executive may not assign, transfer, convey, mortgage, pledge or in any other manner encumber the compensation or other benefits to be received by Executive or any rights which Executive may have pursuant to the terms and provisions of this Agreement.

(b) *Amendments; Waiver*: No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) *Notices*: Any notices to be given pursuant to this Agreement by either party to the other party may be effected by personal delivery or by overnight delivery with receipt requested. Mailed notices shall be addressed to the parties at the addresses stated below, but each party may change its or Executive's address by written notice to the other in accordance with this Paragraph:

Mailed notices to Executive shall be addressed to the last known address provided by Executive to the Company,

Mailed notices to the Company shall be addressed as follows:

E*TRADE Financial Corporation
Time & Life Building
1271 Avenue of the Americas
14th Floor
New York, NY 10020-1302
Attention: SVP, Human Resources

(d) *Entire Agreement*: This Agreement constitutes the entire employment agreement between Executive and the Company regarding the terms and conditions of Executive's employment and any amounts due on termination of such employment, with the exception of (i) the Agreement Regarding Employment and Proprietary Information and Inventions between the Company and Executive, (ii) any stock option, restricted stock, restricted stock unit award or other Company stock-based award agreements between Executive and the Company to the extent not modified by this Agreement, (iii) any indemnification agreement referenced in Section 1 and (iv) the Company's employee benefit plans referenced in Section 3(c). This Agreement (including the documents described in (i) through (iv) herein) supersedes all prior negotiations, representations or agreements between Executive and the Company, whether written or oral, concerning Executive's employment by or service to the Company.

(e) *Withholding Taxes*: All payments made under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law.

(f) *Counterparts*: This Agreement may be executed by the Company and Executive in counterparts, each of which shall be deemed an original and which together shall constitute one instrument.

(g) *Headings*: Each and all of the headings contained in this Agreement are for reference purposes only and shall not in any manner whatsoever affect the construction or interpretation of this Agreement or be deemed a part of this Agreement for any purpose whatsoever.

(h) *Savings Provision*: To the extent that any provision of this Agreement or any paragraph, term, provision, sentence, phrase, clause or word of this Agreement shall be found to be illegal or unenforceable for any reason, such paragraph, term, provision, sentence, phrase, clause or word shall be modified or deleted in such a manner as to make this Agreement, as so modified, legal and enforceable under applicable laws. The remainder of this Agreement shall continue in full force and effect.

(i) *Construction*: The language of this Agreement and of each and every paragraph, term and provision of this Agreement shall, in all cases, for any and all purposes, and in any and all circumstances whatsoever be construed as a whole, according to its fair meaning, not strictly for or against Executive or the Company, and with no regard whatsoever to the identity or status of any person or persons who drafted all or any portion of this Agreement.

(j) *Further Assurances*: From time to time, at the Company's request and without further consideration, Executive shall execute and deliver such additional documents and take all such further action as reasonably requested by the Company to be necessary or desirable to make effective, in the most expeditious manner possible, the terms of this Agreement and to provide adequate assurance of Executive's due performance hereunder.

(k) *Governing Law*: Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year written below.

Dated: , 20[ ]

E*TRADE Financial Corporation

By:

Dated: , 20[ ]

[Name]

Exhibit 12.1

STATEMENT OF COMPUTATION OF RATIO OF EARNINGS (LOSS) TO FIXED CHARGES
(in millions, except ratio to earnings (loss) to fixed charges)

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
Fixed charges:					
Interest expense	$ 314	$ 349	$ 453	$ 488	$ 487
Amortization of debt issue expense	4	3	13	2	1
Estimated interest within rental expense	7	7	7	7	7
Preference securities dividend requirement of consolidated subsidiaries	—	—	—	—	—
Total fixed charges	$ 325	$ 359	$ 473	$ 497	$ 495
Earnings:					
Income (loss) before income taxes less equity in income (loss) of investments	$ 449	$ 191	$ (132)	$ 187	$ (2)
Fixed charges	325	359	473	497	495
Less:					
Preference securities dividend requirement of consolidated subsidiaries	—	—	—	—	—
Earnings (loss)	$ 774	$ 550	$ 341	$ 684	$ 493
Ratio of earnings (loss) to fixed charges	$ 2.39	$ 1.53	$ 0.72	$ 1.38	$ 1.00
Excess (deficiency) of earnings (loss) to fixed charges	$ 449	$ 191	$ (132)	$ 187	$ (2)

The ratio of earnings (loss) to fixed charges is computed by dividing fixed charges into income (loss) before income taxes less equity in the income (loss) of investments plus fixed charges less the preference securities dividend requirement of consolidated subsidiaries. Fixed charges include, as applicable, interest expense, amortization of debt issuance costs, the estimated interest component of rent expense (calculated as one-third of net rent expense) and the preference securities dividend requirement of consolidated subsidiaries.

Exhibit 21.1

E*TRADE Financial Corporation

Subsidiaries of Registrant

Company	Jurisdiction Name
Capitol View LLC	Delaware
E Trade Nordic AB	Sweden
SP Capital AB	Sweden
E*TRADE Bank	Federal Charter
E*TRADE Capital Management, LLC	Delaware
E*TRADE Capital Trust XXVII	Delaware
E*TRADE Capital Trust XXVIII	Delaware
E*TRADE Capital Trust XXIX	Delaware
E*TRADE Clearing LLC	Delaware
E*TRADE Community Development Corporation	Delaware
E*TRADE Europe Holdings B.V.	The Netherlands
E*TRADE Financial Corporate Services, Inc.	Delaware
E*TRADE Financial Corporation Capital Trust V	Delaware
E*TRADE Financial Corporation Capital Trust VI	Delaware
E*TRADE Financial Corporation Capital Trust VII	Delaware
E*TRADE Financial Corporation Capital Statutory Trust VIII	Delaware
E*TRADE Financial Corporation Capital Statutory Trust IX	Delaware
E*TRADE Financial Corporation Capital Trust X	Delaware
E*TRADE Information Services, LLC	Delaware
ETCM Holdings, Inc.	Delaware
E*TRADE Insurance Services, Inc.	California
E*TRADE Master Trust	Delaware
E*TRADE Savings Bank	Federal Charter
E*TRADE Securities Corporation	Philippines
E*TRADE Securities Limited	United Kingdom
E*TRADE Securities LLC	Delaware
E*TRADE UK (Holdings) Limited	United Kingdom
E*TRADE UK Nominees Limited	United Kingdom
ETB Capital Trust XI	Delaware
ETB Capital Trust XII	Delaware
ETB Capital Trust XIII	Delaware
ETB Capital Trust XIV	Delaware
ETB Capital Trust XV	Delaware
ETB Capital Trust XVI	Delaware
ETB Capital Trust XXV	Delaware
ETB Capital Trust XXVI	Delaware
ETB Holdings, Inc.	Delaware
ETB Holdings, Inc. Statutory Trust XXII	Delaware
ETB Holdings, Inc. Statutory Trust XXIII	Delaware
ETB Holdings, Inc. Capital Trust XVII	Delaware
ETB Holdings, Inc. Capital Trust XVIII	Delaware

ETB Holdings, Inc. Capital Trust XIX	Delaware
ETB Holdings, Inc. Capital Trust XX	Delaware
ETB Holdings, Inc. Capital Trust XXI	Delaware
ETB Holdings, Inc. Capital Trust XXIV	Delaware
ETCF Asset Funding Corporation	Nevada
ETFC Capital Trust I	Delaware
ETFC Capital Trust II	Delaware
ETRADE Asia Services Limited	Hong Kong
ETRADE Securities (Hong Kong) Limited	Hong Kong
TIR (Holdings) Limited	Cayman Islands
ET Canada Holdings Inc.	Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of E*TRADE Financial Corporation of our reports dated February 24, 2015, relating to the consolidated financial statements of E*TRADE Financial Corporation and subsidiaries and the effectiveness of E*TRADE Financial Corporation and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of E*TRADE Financial Corporation for the year ended December 31, 2014.

Filed on Form S-3:	
Registration Statement No.:	333-181390
Filed on Form S-4:	
Registration Statement Nos.:	333-91467, 333-62230, 333-117080, 333-129833
Filed on Form S-8:	
Registration Statement Nos.:	333-12503, 333-52631, 333-62333, 333-72149, 333-35068, 333-35074, 333-37892, 333-44608, 333-44610, 333-54904, 333-56002, 333-113558, 333-91534, 333-125351, 333-81702, 333-159653, 333-168939

/S/ Deloitte & Touche LLP

McLean, Virginia

February 24, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul T. Idzik, certify that:

1. I have reviewed this Annual Report on Form 10-K of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 24, 2015

E*TRADE Financial Corporation
(Registrant)

By /S/ PAUL T. IDZIK

Paul T. Idzik
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew J. Audette, certify that:

1. I have reviewed this Annual Report on Form 10-K of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 24, 2015

E*TRADE Financial Corporation
(Registrant)

By /S/ MATTHEW J. AUDETTE

Matthew J. Audette
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with this Annual Report on Form 10-K of E*TRADE Financial Corporation (the "Annual Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Paul T. Idzik, the Chief Executive Officer and Matthew J. Audette, the Chief Financial Officer of E*TRADE Financial Corporation, each certifies that, to the best of their knowledge:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of E*TRADE Financial Corporation.

Dated: February 24, 2015

/S/ PAUL T. IDZIK

Paul T. Idzik
Chief Executive Officer
(Principal Executive Officer)

/S/ MATTHEW J. AUDETTE

Matthew J. Audette
Chief Financial Officer
(Principal Financial and Accounting Officer)